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World Business Newspaper http://www.FT.com THURSDAY NOVEMBER 21 1996

Sporting goods makers to adopt child labour code

Sports goods companies are set to agree on a code of practice aimed at eliminating the use of child labour by manufacturers. Executives from Nike and Reebok of the US, Adidas of Germany and other companies will meet in London today after criticism from trade unions and child welfare groups. An estimated 250m children under 14 are working in developing countries. Page 14

Tunnel still closed: The Channel tunnel is to remain closed for at least another day. Experts will continue to assess the damage caused by Monday's fire, which damaged 600 yards of the under-sea rail link. Eurotunnel's shares fell a further 2p to 86p ($1.32) following Tuesday's 3½p fall. Page 9

US and China aim to strengthen links:

US secretary of state Warren Christopher (left) held an intensive series of meetings in Beijing ahead of president Bill Clinton's meeting this weekend with his Chinese counterpart, Jiang Zemin (right). Both countries seem keen to boost relations, but Beijing objected to continued US arms sales to Taiwan and Washington criticised China's human rights record. Page 8

US trade deficit up: Sluggish world growth, rising oil prices and a fall in aircraft shipments pushed the US trade deficit to $11.3bn in September, up 10.1 per cent from August. Page 7

Protest over Daewoo move: Thousands of employees of French state-controlled consumer electronics company Thomson Multimedia staged marches in Paris to protest against its planned sale to South Korea's Daewoo.

Tokyo Electric Power saw its interims halved because of falling electricity charges, rising oil prices and a weaker yen. The world's biggest quoted power company reported six-month pre-tax profits down 51 per cent to less than Y62bn ($558m). Page 15

Cancer alert: Cases of skin cancer could quadruple by 2100 if ozone-depleting chemicals are not restricted, according to a report in the science journal Nature. Production of chlorofluorocarbons was banned worldwide in January, but there is still a black market in the chemical.

Arms block lifted: The US approved the delivery of a long-delayed arms shipment to Bosnia's Moslem-Croat federation following the dismissal of a Bosnian minister seen to have close ties with Iran. Page 2

Blasts hit Budapest: Police suspect gang warfare is to blame for a spate of grenade attacks near restaurants and nightclubs in the Hungarian capital. No one has so far been hurt by the attacks.

UK youth system condemned: Britain's youth criminal justice system wastes public money, is inefficient and largely fails to help victims or prevent re-offending, says a report by a public watchdog body. Page 9

Italian family murdered: Six members of the same Italian family were found murdered in a southern town of the Calabria region. They were related to a paramilitary policeman who is now being sought.

Granada may demerge: UK group Granada is likely to demerge its TV and its hotel and catering interests, possibly as early as mid-1997. The company yesterday announced a 37 per cent rise in annual pretax profits to £480m ($792m). Page 15; Lex, Page 14

Financial Times journalist Jimmy Burns was yesterday awarded the Santa Cruz Literary Prize by the Anglo-Spanish Society, which promotes friendship and understanding between the people of Britain and Spain. The prize was presented at the Society's annual dinner by the Spanish ambassador, Alberto Aza Arias.

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STOCK MARKET INDICES

New York: lunchtime		
Dow Jones Ind Av	6,415.86	(+18.26)
NASDAQ Composite	1,265.54	(+2.92)
Europe and Far East		
CAC40	2,233.39	(-6.66)
DAX	2,774.50	(+10.41)
FTSE 100	3,982.8	(-15.3)
Nikkei	21,189.96	(+233.78)

US LUNCHTIME RATES

Federal Funds	5⁹⁄₁₆%
3-mth Treas Bills: Yld	5.145%
Long Bond	100¼
Yield	6.438%

OTHER RATES

UK: 3-mo Interbank	6⅝%	(same)
UK: 10 yr Gilt	99⅔	(100⅛)
France: 10 yr OAT	104.92	(105.23)
Germany: 10 yr Bund	102.87	(103.21)
Japan: 10 yr JGB	102.8297	(103.129)

NORTH SEA OIL (Argus)

Brent Dated	$23.325	(23.13)

GOLD

New York: Comex		
	$379.0	(378.3)
London:		
close	$379.2	(378.5)

DOLLAR

New York: lunchtime		
£	1.6773	
DM	1.4985	
FFr	5.071	
SFr	1.2675	
Y	111.6	
London:		
£	1.6773	(1.6753)
DM	1.4977	(1.5028)
FFr	5.0656	(5.0828)
SFr	1.2659	(1.2681)
Y	111.17	(111.36)
Tokyo close	Y 111.65	

STERLING

DM	2.512	(2.5177)

Albania	LEK 275	Gibraltar	£0.75	Lithuania	Lit 18.00	Qatar	QR13.00		
Austria	Sch37	Greece	Dr430	Lux	LFr75	S.Arabia	SR13		
Bahrain	Din1.300	Hong Kong	HK$20	Malta	Lm0.70	Singapore	S$4.30		
Belgium	BFr75	Hungary	Ft270	Morocco	MDh18	Slovak Rp	Sk75		
Cyprus	C£1.30	Iceland	IKr260	Neth	Fl 4.75	S. Africa	R12.00		
Czech Rp	Kc70	India	Rs75	Nigeria	Naira125	Spain	Pta250		
Denmark	DKr20	Israel	Shk9.00	Norway	NKr22.00	Sweden	SKr20		
Egypt	E£5.00	Italy	L3200	Oman	OR1.75	Switz	SFr3.70		
Estonia	EKr 29	Japan	Y550	Pakistan	Rs50	Syria	S£80.00		
Finland	FM13.00	Jordan	JD1.75	Poland	Z6.00	Tunisia	Din2.000		
France	FFr12.00	Kuwait	Fils750	Portugal (mainland)	Es265	Turkey	L120,000		
Germany	DM4.00	Lebanon	L£3500			UAE	Dh13.00		

China plans military display at HK handover

By Peter Montagnon in London

China has told British officials it intends to march 6,000 troops across the border into Hong Kong as soon as it resumes control of the territory at midnight on June 30 next year.

The soldiers will be accompanied by air and naval forces in a display designed to emphasise China is now once again in sovereign control after a gap of 150 years.

British officials fear the troop movements, which will be widely seen on television around the world, will create nervousness about the style of government China plans for Hong Kong.

Chinese government representatives in Hong Kong were unable to comment. For a communist country such as China, such a patriotic display would be a natural and expected part of ceremonies surrounding an event of such momentous sovereign importance.

Britain will have a formal farewell ceremony for the few remaining British troops at sundown on the evening of June 30. But there is concern in Hong Kong that China's display will dampen popular enthusiasm for the handover ceremonies.

These have been billed as a spectacular festive occasion amid hopes that any military activity will be low key.

Public unease about the presence of the People's Liberation Army in the territory has already emerged in negotiations with Britain over the dispatch by China of an advance guard to prepare the ground for the PLA's arrival.

Britain has been seeking to ensure any advance guard is small and unarmed, but it can have no say in how China behaves after midnight on the handover day.

There will be a joint handover ceremony with China on June 30 before the UK contingent, led by Prince Charles, Mr Malcolm Rifkind, the foreign secretary, and Mr Chris Patten, the colony's governor, departs at midnight aboard the royal yacht Britannia.

Shortly afterwards, China will hold a swearing-in ceremony for its new chief executive, expected to be Mr Tung Chee-hwa, the shipping magnate.

Other senior government officials will be quickly sworn in, but China has so far given no indication whether the ceremony could extend to the provisional Legislative Council it plans to set up next month.

Britain has objected to China's plan to replace the existing Legislative Council and fears the new body will constitute a parallel government. Pressure for a strong protest emerged in last week's UK parliamentary debate on Hong Kong.

Mr John Major's government faces an awkward choice over how far to risk jeopardising the handover arrangements by protesting at this late stage.

Mr Patten has already said he will refuse to work with the new body, but he is committed to collaborate with the chief executive-designate, who will clearly also be working with the provisional council.

World Trade Organisation to rule on Helms-Burton law

EU forces dispute panel on Cuba trade

By Frances Williams in Geneva and Nancy Dunne in Washington

The World Trade Organisation yesterday accepted a European Union demand for a dispute panel to examine whether US anti-Cuba legislation violates international trade rules.

But US officials warned the decision, which could spark hostility to the WTO in Washington, would pose "serious risks" for the world trade body.

Since US President Bill Clinton's re-election this month, both sides have voiced hopes of a diplomatic settlement to the row over the Helms-Burton law, which penalises foreign companies trading with Cuba.

But the EU said yesterday it had observed no change in the US position since Washington blocked the first request for a panel last month. Under WTO rules a panel is automatically set up second-time round.

Adjudicating on the issue risks political controversy for the fledgling WTO.

Mr Booth Gardner, US ambassador to the WTO, reiterated yesterday that the US legislation was a foreign policy measure "designed to promote a swift transition to democracy in Cuba". He noted that some of the measures the EU was complaining about had been in force for years. They had been justified by the US under the General Agreement on Tariffs and Trade, the WTO's predecessor, as "measures taken in pursuit of essential US security interests".

Washington has not said explicitly that it will invoke the WTO's national security exemption in defence of the Helms-Burton Act but Mr Stuart Eizenstat, commerce undersecretary, has said Washington will use all the tools at its command.

The exemption lets a WTO member take "any action it considers necessary for the protection of its essential security interests", but only in three circumstances. These relate to fissionable materials, traffic in armaments and/or action "taken in time of war or other emergency in international relations".

Brussels says the exemption, never tested in law, does not apply in Cuba's case and cannot be extended to restrict trade by third countries.

The three trade experts on the WTO panel could find they have to decide whether the US is facing an "emergency in international relations" and

Continued on Page 14
Unlikely ally, Page 7

Power protest: Belarussians protest yesterday in Minsk against President Alexander Lukashenko's increasingly authoritarian rule as Russia tried to mediate in his dispute with the country's parliament. Report, Page 2; Editorial Comment. Page 13 Reuter

Brussels blocks $1.1bn Finnish merger

By Greg McIvor in Stockholm and Emma Tucker in Brussels

The European Commission yesterday blocked a proposed FM5bn ($1.1bn) merger between Finland's two leading grocery chains.

In a rare move aimed at preventing a domestic monopoly which could stifle competition from rival European Union suppliers, the Commission rejected the acquisition by Kesko, Finland's largest retail and wholesale grocery group, of Tuko, its nearest competitor, in May. It is only the sixth merger blocked by the Commission since 1990.

The tie-up would have created a group with a 60 per cent share of retail and wholesale grocery markets in Finland. The EU said it was concerned Kesko's dominance of the retail and wholesale grocery business would harm smaller operators and act as a barrier to entry by retailers from other member states.

"The combined retail market share of Kesko and Tuko is at least 55 per cent whether assessed at local, regional or national level," the Commission said.

Kesko's dominant position was further enhanced by customer loyalty schemes, private label products, distribution systems and combined procurement power, it added.

The ruling called for "appropriate measures to restore effective competition". Kesko interpreted this to mean it would be forced to sell the bulk of Tuko's businesses, notably its wholesale and retail operations corresponding to around 70 per cent of its sales. It will seek to retain Tuko's Anttila department store chain and a hardware business.

The Finnish Office of Free Competition is not empowered under Finnish law to obstruct domestic mergers, but it referred the case to Brussels out of concern it would create a monopolistic supply structure in Finland.

Mr Matti Purasjoki, OFC director-general, said he hoped other Finnish companies contemplating mergers would take European competition laws into account.

But Mr Matti Honkala, Kesko chief financial officer,

Continued on Page 14
Short sight lays low Finnish giant, Page 2

European futures rivals forge links with Chicago

By Samer Iskandar in London and Laurie Morse in Chicago

The battle for supremacy among European futures exchanges in the run-up to monetary union intensified yesterday as the two leading contenders both announced link-ups with a US market.

Liffe, the London futures and options exchange, and its French rival Matif will list some of their most profitable products in Chicago, the world centre for derivatives trading.

The links with the Chicago Mercantile Exchange are part of the exchanges' tactics for coping with European monetary union which threatens to make diverse national interest rate contracts redundant.

The exchanges are trying to increase business in their leading products – enhancing their chances of surviving in the move to a single currency.

The agreements mean the CME will be able to offer its members a broader range of global products. It will also help the exchange catch up with its rival, the Chicago Board of Trade, which has a deal with Liffe to trade Europe's major long-term bond futures contracts. The CME said the agreements paved the way for it to become the key North American link for Emu.

Liffe will allow members of the CME to trade its three-month euromark futures and options – products that allow traders to cover themselves against adverse moves in short-term German interest rates – on its open-outcry trading floor. CME members were also offered access to Matif's notional future contracts, a hedging tool on French government bonds with maturities of about 10 years. It will be the first long-term interest rate contract offered on the CME.

Last month, Liffe's average daily turnover in euromark futures and options was nearly 150,000 contracts worth almost DM148bn ($98bn).

Liffe said the move was "part of our Emu strategy to distribute our euromark products in North America". Mr Daniel Hodson, chief executive, said: "This strengthens our position against our competitors in Europe."

Market analysts said the most likely beneficiary of the moves was the CME. "This was obviously a CME-led initiative," said Mr Julian Jessop, chief European economist at Nikko in London.

Meanwhile, the Chicago Board of Trade, the world's busiest derivatives exchange, announced a change to its agreement with Liffe allowing it to trade all of the UK exchange's products destined to become part of Emu.

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Short sight lays low Finnish giant

Hugh Carnegy and **Greg McIvor** on how a $1bn merger fell foul of EU competition laws

The European Commission's decision to block a $1bn merger in Finland's retail and wholesale sector left many observers shaking their heads over how one of the country's biggest corporations could have so miscalculated such a vital aspect of the takeover.

Kesko was already one of Finland's top five companies by turnover, running everything from high street supermarkets to wholesale food and consumer goods operations, before it took over its rival Tuko in May. Together they have sales approaching FM40bn ($9bn), including 60 per cent of the retail and wholesale food markets.

But Kesko management, in a fatal misjudgment, saw only "a very little risk" of falling foul of European competition laws, according to Mr Matti Honkala, chief financial officer. "We saw that this was a very domestic case because we operate in Finland and from our point of view the merger does not have any international meaning," he said.

Market opinion was less than charitable. "It is incredible that the management of a company like that could make such a catalogue of errors," commented a London-based analyst.

Kesko's confidence was such that there was no escape clause covering the possibility of an adverse ruling by Brussels in the original purchase of a 56 per cent stake in Tuko from Merita Bank, Okobank and the insurance group Pohjola. Nor did the company consult the Finnish Office of Free Competition before the merger. It was the OFC which referred the case to the Commission.

Mr Matti Purasjoki, OFC director general, said he had declared before the Kesko-Tuko deal that a merger between the two was the kind of transaction he would be likely to act upon. "My warning was in the public domain, but we had no contact from Kesko," he said. Even after the OFC referred the matter to Brussels, Kesko continued buying Tuko shares.

Traditionally tolerant attitudes in Finland towards mergers, monopolies and cartels may have affected Kesko's judgment. The country still has no regulations covering mergers: companies do not have to notify the national authorities of a deal and there is no domestic mechanism for blocking one on competition grounds.

There has been almost no opposition inside Finland to the Kesko-Tuko tie-up and recent banking and pulp and paper mergers must have encouraged Kesko to think there was no problem. But the OFC and the Commission judged that Kesko's hold on the retail and wholesale markets meant it controlled access to the Finnish market by foreign competitors.

"The Kesko case shows how poorly people here in the far north understand what Europe regards as genuine competition. Competition is not generated by deals done during elk hunts, or in private rooms," wrote a columnist in Finland's leading newspaper.

Kesko was yesterday in the uncomfortable position of having to divest the bulk of its acquisition – possibly for far less than it paid. However, the company put a brave face on its predicament, saying that it was "confident of recovering its investment in full".

Anti-Brittan chorus grows louder

The Santer team is finding life with the UK's formidable commissioner increasingly difficult, writes **Lionel Barber** in Brussels

Fresh from his latest foray to China and Hong Kong, Sir Leon Brittan returned to Brussels yesterday and the prospect of further splendid isolation.

Too big for his boots. Not a team player. Impossible to deal with. The charges against the senior British commissioner and the man responsible for European Union trade policy have a familiar ring.

What is new is that the criticism seems louder and more persistent than at any time since he arrived in Brussels in 1989. Even colleagues who are grudging admirers have begun to keep their distance from the man known as the "intellectual catherine wheel".

Last week, Mr Karel Van Miert, the Belgian commissioner who handles competition policy, was furious to learn that Sir Leon was negotiating slightly more generous terms for the timetable agreed with the Madrid government for liberalisation of Spanish telecoms.

Mr Hans van den Broek, the Dutchman responsible for enlargement, is as sensitive as ever about Sir Leon's incursions into his territory. Mr Christos Papoutsis, the Greek commissioner, is still sore about the battering he received over his proposals for electricity liberalisation, which Sir Leon dismissed as too timid.

Sir Leon has also ruffled feathers in Bonn and Paris. Chancellor Helmut Kohl's office was displeased to hear him pooh-poohing the German leader's suggestion that Poland could join the EU by the year 2000. The Elysée was livid to hear about Sir Leon's implicit criticism of President Jacques Chirac's diplomatic shuttle in the Middle East.

Some of these charges are tittle-tattle; others look unfair. Sir Leon likes to lead from the front, if occasionally with his chin. On Spanish telecoms, he wanted to secure a deal in order to present newly-elected President Bill Clinton with a new package which would encourage the US to kick-start post-Uruguay Round trade negotiations. On energy liberalisation, many feel he was right to speak out for a bolder policy.

Sir Leon has always been a workhorse-cum-bulldozer with few hesitations about trampling over others, his agenda an uneasy balance between promoting the EU's interests and his own.

The balance has become more difficult to sustain after seven years in Brussels in which Sir Leon has moved effortlessly from competition to trade policy. He travels the world from Washington to Beijing, makes EU trade policy on the hoof, and considers himself to be the master of most of his colleagues' dossiers.

"Sir Leon has fallen into the trap which faces all foreign ministers," says one Commission official. "He thinks he has no need of a domestic political base." Another official says Sir Leon's attitude is: "I don't need colleagues, I deal with heads of government."

Yet Sir Leon's difficulties go deeper than matters of personal style. They go to the heart of the current Commission, under its president, Mr Jacques Santer, which is collegial to the point of being anaemic. Officials close to Mr Santer worry that Sir Leon's powerful brain and personality will make him an uncrowned president; officials close to Sir Leon talk about a "soft centre" in the Commission which leaves it vulnerable to pressure from the big powers, particularly Germany.

Last month, helped by his British colleague Mr Neil Kinnock and several other commissioners, Sir Leon demolished proposals put forward by Mr Santer and Mr Yves-Thibault de Silguy which met German demands for a stability pact for budgetary discipline among countries taking part in the planned single currency zone. Mr Santer and Mr de Silguy warned that the Bundesbank would react negatively, but a Brittan/Kinnock-led majority said the draconian sanctions against fiscal delinquents made no economic sense. They carried the day.

Sir Leon Brittan: criticism of him is more insistent than ever

The final charge against Sir Leon is that he has become a hostage to his own government in Britain. During the beef war and, notably, ahead of last week's European Court rejection of the UK challenge to the 48-hour working week, Sir Leon urged Mr Santer to avoid inflammatory language which could be exploited by Tory Euro-sceptics.

The president's inclination was to go along, but his entourage construed the approach as special British pleading. Subsequent negative UK press coverage of the court verdict confirmed their view, prompting Mr Santer to attack "Dickensian sweatshops" without actually naming Britain.

Like all British officials in Brussels, Sir Leon is paying the price for the Conservative party's lurch toward Euro-scepticism. This is a shift which he has sought to counter in speeches, despite personal attacks in the British press bordering on the anti-Semitic and a relationship with Mr John Major, the prime minster, which insiders say is no better than cool.

What is to be done? One option is to up the ante and take an even more aggressive stand on European issues, even if it means alienating turf-conscious colleagues in Brussels and old friends in the Tory party. The other is to stay mum and wait for a Labour government in London.

Silence has never been one of Sir Leon's strengths and his loyalty to the Conservatives remains strong. But as one colleague admits: "Leon does talk more often to Tony Blair than John Major."

France plugs old tax loopholes

By David Buchan in Paris

Sweeping aside the country's ancien fiscal régime, the French parliament has put to the guillotine historic tax breaks for 72 professions and groups of workers.

The government will only save some FFr2.6bn ($520m) a year by phasing out the loopholes over five years. But the change is designed to symbolise its desire to modernise the tax system, as part of the drive to reduce the budget deficit sufficiently to qualify next year for European monetary union.

Last night the National Assembly approved a budget deficit of FFr284.8bn for 1997, FFr1.2bn more than the government requested in September.

Only the most vociferous of the country's "corporations", its 28,000 journalists, have managed to salvage something from the wreckage of ancient privileges.

In removing a tax break for journalists that dates from the 1930s, Mr Alain Lamassoure, the budget minister, responded to widespread pressure from backbench MPs as well as from the fourth estate, by promising to create a "modernisation fund" which the government said was designed to help needy journalists.

The 700,000 people who are to lose their tax breaks will still be able to deduct whatever they can convince the finance ministry are real professional expenses.

The list of tax breaks that are to disappear reads like an early industrial history of France, reflecting an era when employees often had to provide their own working materials or equipment.

Not only will airline cabin crew, test pilots, insurance inspectors, musicians, chauffeurs and fashion models join journalists in losing *their guaranteed deductions*. So also will "home weavers using equipment powered by electricity at their own expense in the departments of Aisne, Nord and the Somme".

Many disappearing tax niches reflected the cottage-industry origins of silk around Lyons, weaving in the Cevennes hills in the south, and iron-making in the French Ardennes, and were designed to protect local activity long after the bulk of these industries had moved elsewhere.

The relatively poor area of the Jura mountains has required, perhaps, the greatest discrimination from tax inspectors.

There, in the little town of Oyonnax, they have had to ensure the 20 per cent tax only goes to "makers of combs, other than by sand-papering, cutting or milling".

Banks see fast growth in services to wealthy

By George Graham, Banking Correspondent

European private bankers expect the market for financial services to the wealthy to keep growing faster than the rest of the industry, but more aggressive competition is squeezing fees and is likely to force some weaker banks out of the business.

An annual survey of European private banking by Price Waterhouse, management consultants and accountancy firm, found 70 per cent of chief executives of private banks in Europe expected revenues to grow by more than 11 per cent a year in the next five years.

But the 116 bankers questioned by Price Waterhouse said they no longer expected the bulk of that growth to come from existing clients.

Instead, they believe they will have to win customers from their competitors and from the ranks of the newly wealthy – rich entrepreneurs, especially in the Far East and India.

These new clients are expected to be more active investors and more aggressive customers, who will haggle over fees, expect more sophisticated services and split their business between several banks.

"Clients will be much less loyal," said Mr Ian Woodhouse, associate vice president in Price Waterhouse's financial services consultancy.

The private banking business has been going through considerable upheaval. New competitors have entered a business once dominated by traditional houses such as the Swiss partnership banks. While many smaller private banks are now merging with or acquiring other businesses, the very largest houses have also begun to focus more resources on their private banking businesses.

Swiss Bank Corporation and Credit Suisse, two of the largest houses, have both separated private banking from the rest of their retail banking businesses, and this has increased the competitive pressures in the market.

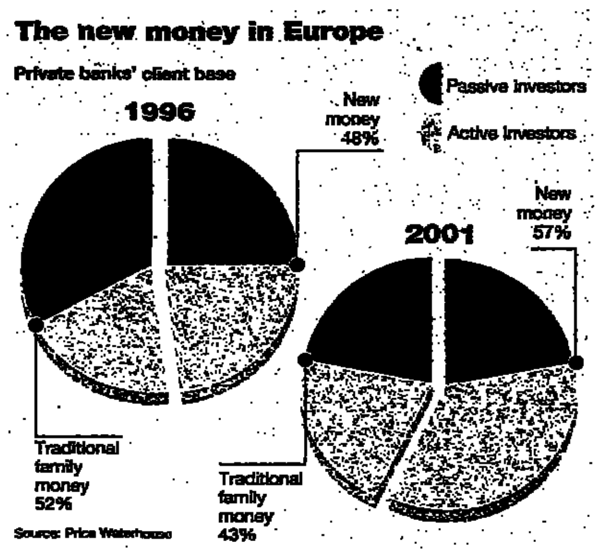
The Price Waterhouse survey shows a much wider range of efficiency in private banking than usual in other *financial services sectors*. A few banks reported their costs amounted to less than 40 per cent of their income, but these figures mostly represented notional expenses of organisations which belonged to a larger group.

An efficient trust business may have a cost:income ratio close to 40 per cent, the study says, while the better full range private banks may have ratios in the 50-60 per cent range.

But 17 per cent of the sector reported cost:income ratios in excess of 80 per cent. Swiss and German banks reported especially high expense ratios, partly because of the high cost of operations in these countries but also because of heavy investments in computer systems.

"Some of the banks in the 80 per cent plus range are going to find it increasingly difficult to survive," Mr Woodhouse warned.

Private banks continue to pride themselves on their ability to deliver personal service, and most of those questioned expect this still to be one of the most important client demands five years from now. Investment performance, which today ranks only 11th in private bankers' list of reasons why clients choose them, is expected to leap in importance to third place in five years' time.



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Belarus leader snubs Russian offer

By Matthew Kaminski in Kiev and John Thornhill in Moscow

Mr Alexander Lukashenko, president of Belarus, yesterday rebuffed Russian efforts to mediate in his intensifying dispute with his country's parliament.

After speaking at length to President Boris Yeltsin, still recovering in hospital after a heart operation, he turned down an invitation for talks involving Russian leaders and Mr Seymon Sharetsky, speaker of the Belarus parliament and his main adversary.

Mr Victor Chernomyrdin, the Russian prime minister, was ready to attend the talks in Smolensk, a Russian city on the Belarus border. However, Mr Lukashenko's aides said the president was "very busy" and could not come, according to Russian parliamentarians who did attend.

Mr Lukashenko's increasingly authoritarian rule has embarrassed the Kremlin, which considers Belarus a strategically important ally in central Europe.

The deepening crisis yesterday prompted a joint call by the presidents of Lithuania, Poland and Ukraine for "a constitutional resolution and respect for human rights" in their unstable neighbour. Some 18 Soviet-era nuclear missiles are left in Belarus.

Mr Lukashenko, dashing expectations of compromise, insisted yesterday that a controversial referendum on enhancing his powers would go ahead on Sunday, telling the Interfax news agency: "Its cancellation is out of the question."

The country's highest court is considering a petition to impeach the president from 76 MPs who contend the referendum is illegal. The court could rule before the weekend.

A few hundred demonstrators kept a vigil in front of the parliament last night, watched closely by riot police, according to deputies inside the building.

The president's determined stand comes as the Kremlin, which until this week steadfastly backed him, has called for compromise and openly expressed its displeasure at the stand-off.

Mr Lukashenko risks angering his powerful Russian backers by snubbing Kremlin leaders. Some liberal commentators in Moscow yesterday warned that he had become increasingly isolated. The president indicated yesterday he might meet Mr Chernomyrdin later this week.

Mr Sharetsky last night held talks with his counterparts from the Russian Duma, which has called for a quick resolution and backed away from its previous endorsement of Mr Lukashenko.

Belarusan opposition leaders welcomed the Russian involvement. "The good will of Russia is the only way out of this conflict," Mr Stanislau Bohdankebich, leader of the main opposition Civic Union party, said by telephone. "There are no other influential forces."

Mr Bohdankebich said the president had called for talks with parliamentarians for tomorrow.

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EUROPEAN NEWS DIGEST

Bosnia arms block lifted

The US yesterday gave the go-ahead for the delivery of a long-delayed shipment of weapons to Bosnia's Moslem-Croat federation following the dismissal of a Bosnian minister seen to have close ties with Iran.

Mr James Pardew, the envoy responsible for the $400m US-sponsored "train and equip" programme aimed at merging the Moslem and Croat armies into a joint force equal in strength to their Bosnian Serb counterparts, said he had recommended to Washington that the cargo ship American Condor return to Croatia's Adriatic port of Ploce to unload. Since last month Washington had blocked the $88m shipment (including M-60 tanks and M-113 armoured personnel carriers) demanding the resignation of Mr Hasan Cengic, the hardline Moslem deputy defence minister.

"Now that the minister and his deputy have left, the train and equip programme can move forward. The next major step will be an agreement of the force structure," Mr Pardew said yesterday.

A US embassy official in Sarajevo said that the American Condor would begin unloading today after the resignations of Mr Cengic, a Moslem cleric who Washington claims maintains close links with Tehran. *Laura Silber, Zagreb*

Brussels queries copier aid

The European Commission is to examine aid granted to Océ Nederland, the biggest subsidiary of the Oce-van der Grinten copier group, for research and development into a new digital high-volume copier.

An advance of Ecu12m ($15m) was paid in 1994, with repayment to take place once the product was launched commercially. Brussels fears some of the conditions it laid down when permission for the aid was first granted have not been met. Further aid by the Dutch government in 1995 for work on the same project is also under scrutiny.

Brussels has also opened an inquiry into a request by the Spanish authorities to allow Astilleros Zamacona, a privately owned shipyard in the Basque region, to receive state aid for five tugs.

In a further effort to clamp down on state aid, the Commission has outlined conditions to be met by public authorities when selling land. This follows a series of land sale agreements in which it detected the illegal use of state aid. *Emma Tucker, Brussels*

Hopes ride on 1996 Nouveau

Producers of this year's Beaujolais Nouveau, released on to the French and world market this morning, are hoping that sales will return to their normal level after last year's boycott by foreign consumers over French nuclear tests. That protest produced a drop in sales to 47m bottles from the customary 55m.

The UIVB association believe stable prices and an unusually "rich, intense, and aromatic" vintage will bring a recovery in markets hit by the boycott, especially Japan, where President Jacques Chirac happens to be on an official visit. Sales there dropped 30 per cent last year.

The association said that it was extending marketing efforts in eastern Europe, but in volume terms the big increase in recent years had come in south-east Asia. Thailand, for instance, has become the 15th biggest foreign customer. *David Buchan, Paris*

Biotech support from Bonn

The Bonn government yesterday awarded a total of DM150m ($100m) of special financial support to three regions to encourage the development of biotechnology industries with the aim of helping Germany become Europe's leading biotechnology centre by the year 2000.

Mr Jürgen Rüttgers, education and science minister, said he expected federal support to the three "model regions" would act as a catalyst, attracting an estimated DM800m of risk capital and extra funding from state governments. Bavaria has already allocated DM50m for biotechnology; North Rhine-Westphalia is setting up a DM70m biotech fund.

The Bonn cash will be supplied over a five-year period to fund biotech projects around Munich, in a region of the Rhineland around Aachen, Cologne, Düsseldorf and Wuppertal, and in the "Rhine-Neckar triangle" around Heidelberg, Ludwigshafen and Mannheim.

Germany has been slow to embrace biotechnology and it remains controversial among an environmentally-conscious public. Mr Rüttgers said yesterday there was "a trend in favour of biotechnology which many would have thought impossible five years ago". *Peter Norman, Bonn*

Irish doubts on Emu grow

Ireland's business community is growing doubtful that European monetary union will take place as planned in 1999, according to a survey published yesterday. While business is overwhelmingly in favour of joining, only 35 per cent believe it will take place on time.

The survey, by the Irish Business and Employers Confederation, found that 91 per cent favoured joining Emu, and 75 per cent believed Ireland should join from the start.

But the report also underlines how ill-prepared the business community is. Only 4 per cent of respondents had worked out a strategy or assessed the financial consequences of joining a single currency. Fewer than 7 per cent had appointed a director to handle the transition.

Ireland is broadly on track to meet the Maastricht criteria for monetary union. Inflation is estimated at 1.75 per cent for 1996, and the general government deficit at 2.4 per cent of GDP for 1996 is running well within with the 3 per cent target. *John Murray Brown, Dublin*

ECONOMIC WATCH

German M3 growth high

German money supply growth remained high in October, partly influenced by Deutsche Telekom's new issue, which led to funds being moved to short-term deposits ready to pay for the shares. The Bundesbank said M3, the broad monetary aggregate, showed an unchanged 8.4 per cent growth rate, annualised and seasonally adjusted, over the fourth quarter of 1995.

Some estimates had put the likely figure even higher as a result of the Telekom deal. However, its effect will be reversed this month, when economists expect the rate to fall below 8 per cent. Thus M3 could end the year just within or close to the target 4-7 per cent. Also affecting the October trend was a rise in lending to the public sector and weak monetary capital formation (movement of funds to longer-term assets).

Meanwhile, the finance ministry announced that the overall deficit of *Germany's federal, state and local* authorities would be DM99.5bn ($66bn) next year compared with nearly DM120bn in 1996.

Andrew Fisher, Frankfurt and Peter Norman, Bonn

■ The Ifo economic research institute's business climate index for west Germany rose more than expected last month, indicating economic recovery has continued after the third quarter slowdown. The index rose from 95.7 in September to 97.4. In east Germany, however, it eased from 103.9 to 103.4.

■ Swedish retail sales rose 2.1 per cent in September from a year earlier, the central statistical bureau reported.

■ Denmark's independent economic advisory council expects the growth rate of gross domestic product to rise to 2.9 per cent this year from 2.3 per cent in their previous half-yearly forecast.

Armed tax police raid Saatchi in Moscow

By Chrystia Freeland in Moscow

The Moscow office of Saatchi & Saatchi, the UK-based advertising agency, has been raided by armed tax police in a crackdown against foreign companies.

They accuse Bates-Saatchi & Saatchi of owing Rbs33bn ($6m) in taxes and fines.

About 20 armed police took part in the raid on October 29, seizing documents and making video recordings. The police said the tax debt was accrued by Zoom Media, a Frankfurt-based company which Russian authorities allege was operating on behalf of Saatchi.

Cordiant, the marketing services group which owns Saatchi, would not comment on its relationship with Zoom.

Westerners in Moscow said some of Saatchi's foreign staff were forced to leave Russia abruptly and had not returned. The head of the Moscow office was in London yesterday.

Mr Alex Sandberg of Cordiant said the agency faced difficulties in Russia, but the departure of some employees was due to regular travel plans.

The company would continue to serve its accounts.

Western business leaders and analysts were concerned the raid was part of growing pressure on foreign companies from the tax authorities leading the Kremlin's aggressive campaign to boost revenue collection.

The International Monetary Fund has delayed a loan payment to Russia because of weak revenue collection. Observers fear that western companies could bear the brunt of the crackdown.

"Western companies are better funded, they are more able to make payments and probably they are more susceptible to pressure," said Mr Robin Porter, project director at the International Tax and Investment Centre, a think tank.

Mr Alexander Borisov of the Moscow tax police said an investigation into Saatchi between June and August had revealed "the hiding of revenues from taxation in unusually high amounts".

Saatchi staff were reluctant to discuss the issue over Moscow telephone lines and appeared concerned about prejudicing talks with the tax authorities. "We are co-operating fully with the authorities and we hope to reach a resolution soon," Mr Sandberg said.

Mad Max injects new life into east German mining hamlet

The road to Gremmin leads straight into a light brown lunar landscape of slag-heaps and ploughed soil. Once it was a village of 500 people, but they disappeared years ago when their homes were swallowed up by the Golpa-Nord brown coal mine.

Gremmin's fate is not untypical in eastern Germany, where brown coal, mostly from open-cast mines such as that at Golpa-Nord, provided most of the energy for the old Communist state.

But, unlike those other hamlets and villages which were scrubbed off the map by monstrous excavators, Gremmin is on the verge of being reborn, in spirit at least. It is part of an unusual project to address the problems of industrial decline and environmental damage in one of east Germany's most depressed regions, Saxony-Anhalt.

The Ferropolis project involves turning the Golpa-Nord mine, exhausted six years ago, into a mixture of a theme park and exhibition centre. It will be one of the satellites of the Hanover Expo 2000 industrial fair.

The project is centred on a thin tongue of land reaching into the Golpa-Nord mine. There, four huge mining machines – nicknamed Mad Max, Medusa, Gemini and Mosquito – are being arranged in a square. A fifth machine – Big Wheel – will be to the side. The square thus enclosed will be capable of holding 10,000 people.

This assembly of heavy industrial hardware will form the centrepiece of an exhibition devoted to the history of what was once one of the powerhouses of German industry. The surrounding landscape will be flooded, leaving the exhibition site as an island.

Mr Thomas Worms, head of the local Expo 2000 office, believes this startling arrangement will become a popular tourist and leisure attraction. As well as a permanent exhibition devoted to brown coal mining, Ferropolis will be a venue for art shows and concerts.

He is also convinced that the sheer spectacle of the project will be a magnet for tourists. Ferropolis has attracted thousands of visitors, even though it will not open officially until next year.

The inspiration behind Ferropolis came from the Bauhaus design school in Dessau, about 15 minutes' drive from Golpa-Nord. Two students from the Bauhaus, which as the onetime workplace of Walter Gropius and Mies van der Röhe can claim to be one of the main sources of modern architecture and design, came up with the idea five years ago.

At that time the Golpa-Nord mine was scheduled to be filled in and simply landscaped. The machines were destined for the scrapyard.

The idea of taking a different approach, one which sought to preserve a bit of the history of the mine and the machines which worked it, was not immediately popular. "People here tend to think of Bauhaus as a bunch of weirdos who always come up with strange ideas," says Mr Worms.

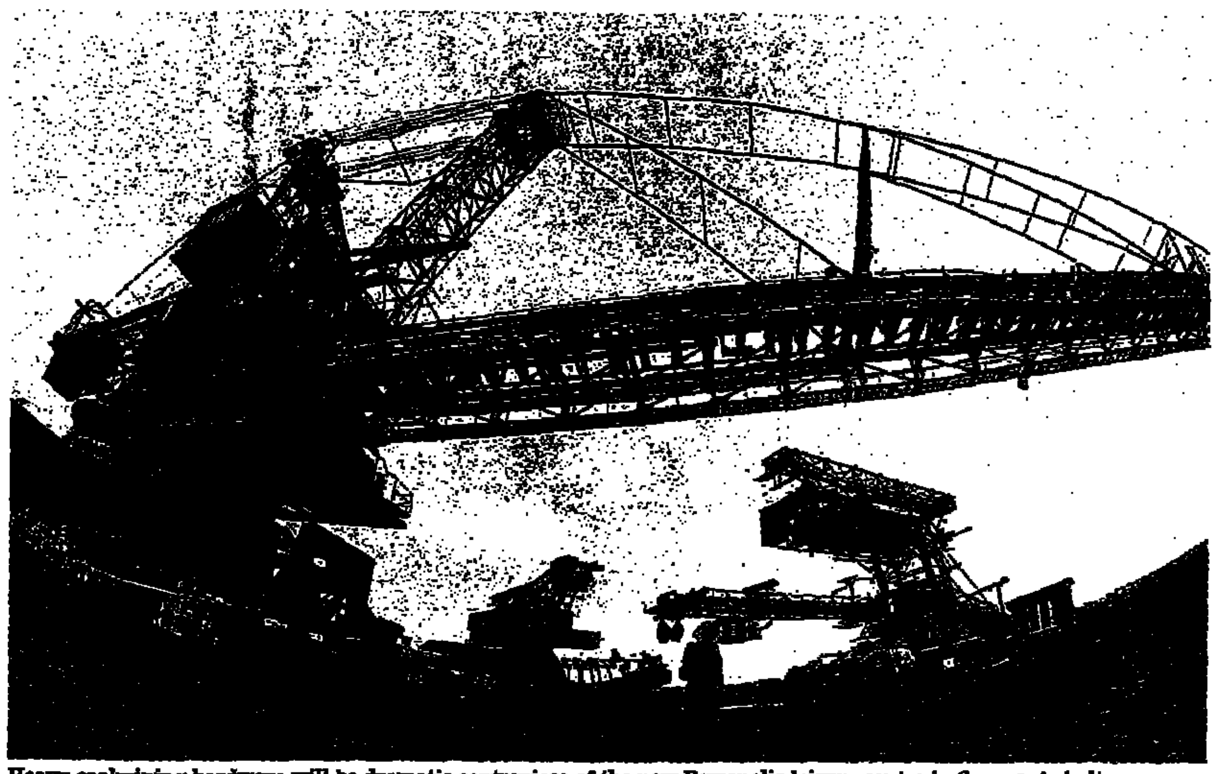
But as the job of closing the mine and breaking up the machines started to get under way there was a change of heart. "Everyone began to see that we weren't dismantling just the mine, but also a bit of east German history and a bit of our own personal history as well," says Mr Worms, who studied mining technology and later worked at a mine nearby.

Bauhaus managed to win over the mine's owners, LMBV, and gain the support of the Saxony-Anhalt government and of the Expo 2000 organisers. The DM5.1m ($3.4m) which LMBV had originally earmarked for the scrapping for the machines was transferred to the new project. A further DM4.9m is being provided by Saxony-Anhalt and private backers.

For the state, Ferropolis has a symbolic resonance. The worked-out mine seems an expression of exhausted potential; even the manufacturer of its machines, a big local engineering concern called SKET, is now fighting for its survival. But the region also prides itself on being the birthplace of PVC, colour film and the ideas of Bauhaus, as well as the centre of Martin Luther's Reformation.

Mr Worms argues that Ferropolis too is "a positive symbol of Saxony-Anhalt's ability to grasp the challenges of reform and innovation.

Frederick Stüdemann



Heavy coalmining hardware will be dramatic centrepiece of the new Ferropolis leisure centre in Saxony-Anhalt Reuter

Estonia coalition close to collapse

The government of the Baltic state of Estonia was on the edge of collapse last night after six ministers from the junior coalition partner resigned, Reuter reports from Tallinn.

The Reform party, led by Mr Siim Kallas, who quit yesterday as foreign minister, will decide today whether to leave the government.

The year-old government is the sixth since Estonia regained its independence from the former Soviet Union in 1991.

The resignations come after a row over a co-operation agreement between the Coalition party of Mr Tiit Vaehi, the prime minister, and the leading opposition group, the Centre party. The Reform party was incensed by a clause providing that Mr Vaehi's party would work to include the Centre party in the coalition. It gave the prime minister until yesterday to scrap the deal.

Mr Vaehi has tried to reassure his partners that the deal would not lead to the Centre party joining the coalition.

He insisted that the wording meant only that the Coalition and Centre parties would work together to "strengthen democracy".

The previous government was a Coalition/Centre partnership which collapsed amid scandal after the Centre party leader was found to have taped confidential conversations.

Italy ponders incentives for car market

Pressure grows as low domestic demand hits operating margins

By John Simkins and Andrew Hill in Milan

The Italian government is considering offering incentives to stimulate a car market which is suffering from sluggish domestic demand and growing much more slowly than those in the rest of Europe.

Pressure from trade unions and car manufacturers gathered pace this week when Fiat, the Turin-based automotive group, released quarterly figures showing low domestic demand hitting operating margins.

However, because of political sensitivity over tough spending cuts and tax rises aimed at meeting the criteria for European monetary union, the government was reluctant to address the issue before last weekend's parliamentary approval of the budget.

On Tuesday, Fiat's share price leapt after Mr Augusto Fantozzi, foreign trade minister, confirmed that the government was studying incentives for car buyers which have been used by France, Spain, Denmark and Ireland over the past two years.

"Intervention is needed for the car industry, whether of a financial or fiscal nature," he said, stressing he was referring to possible measures to boost exports.

However, in an interview before approval of the budget, Mr Pier Luigi Bersani, industry minister, said he would prefer incentives at a European level. "The government has an extremely careful attitude on incentives because tampering with the market is also dangerous," he declared.

In the first 10 months of this year, Italy's passenger car market grew 0.6 per cent, while Europe-wide growth was 7.4 per cent. All other 16 markets of western Europe showed faster growth.

Mr Gian Primo Quagliano of Promotor, an independent Italian car industry analyst, said a case existed for a scheme similar to the French one which ended in September that offered a government bonus and dealers' concessions to customers buying new cars when sending cars above eight years old to be scrapped.

"Incentives are needed to overcome a difficult period and bridge the gap with an upturn in the market in a year or 18 months' time," he added.

Analysts are divided on the benefits of incentives. Mr Nick Potter, of Credito Italiano in London, said about 250,000 of 440,000 cars bought under incentive schemes in Europe this year would have been purchased anyway.

The drawback to the French scheme was that the lump-sum payments threatened to have a lasting effect on car prices after the scheme had ended, squeezing manufacturers' margins.

Mr John Lawson, of Salomon Brothers, said Italy could boost its market by implementing its legislation on roadworthiness. Italian cars are kept on the road for an average of 16 years, compared with less than 13 in the rest of Europe.

Any boost for the car market might help smooth national negotiations between engineering employers and unions which have been stalled for five months.

Union leaders, who have seen the purchasing power of their members fall, are demanding employers honour a 1993 agreement between government, unions and employers which provides for a pay increase to cover the difference between projected inflation and actual inflation.

Metal workers have threatened an eight-hour nationwide strike for tomorrow.

Petrol prices in Italy could fall by more than 10 per cent if the distribution system were re-structured and allowed to be more competitive, Mr Giuliano Amato, head of the country's anti-trust authority, has said, Robert Graham writes from Rome.

Outlining a formal opinion prepared by the authority on pricing, Mr Amato noted that only Agip, the exploration and distribution subsidiary of Eni, the state-controlled oil group, had a countrywide system of storage, stemming from the mid-1970s, when the oil majors all but withdrew from Italy.

Foreign companies have now returned, but still rely on Agip storage, for which they pay on a swap basis. Mr Amato suggested storage facilities be transferred to a consortium open to all oil companies operating or wishing to operate in Italy. He recommended the concession system for opening petrol stations be scrapped in favour of simple permits.

Ukraine to get $150m to help shut Chernobyl

By Kevin Done, East Europe Correspondent

Western governments are to make a grant of $150m to help in decommissioning the Chernobyl nuclear power plant in Ukraine. The money is part of the international effort to have the plant shut by the year 2000.

Two of the four reactors at Chernobyl, scene of the world's worst nuclear disaster 10 years ago, are still operating and generate around 5 per cent of Ukraine's power.

The funds will come from the Nuclear Safety Account, administered by the European Bank for Reconstruction and Development on behalf of 14 western donor countries and the European Union. It will finance an interim storage facility for spent fuel and one for treating liquid radioactive waste, and will also fund some short-term safety measures at the third reactor prior to closure. About half of the work will be carried out by Ukrainian companies.

Western countries have agreed to provide a total of $350m to prepare the decommissioning of Chernobyl and for interim safety measures.

● The EBRD said yesterday higher income from its bank operations had led to a 63 per cent increase in operating profits to Ecu69.7m ($89m) in the first nine months of this year. Banking operations, including growing dividend income from the bank's equity holdings and profits from share sales, accounted for 40 per cent of income in the period.

The bank reported a net profit of Ecu2.2m compared with a loss of Ecu1.8m in the same period a year ago following a 52 per cent increase in provisions to Ecu67.5m from Ecu44.6m. Mr Bart le Blanc, vice-president finance, said much of the operating profit had been allocated to "prudent up-front provisioning" to protect a growing portfolio.

New commitments signed in the first nine months rose to Ecu1.1bn from Ecu918m in the same period a year ago, with a growing share of projects in Russia and the financial sector. The EBRD and a group of international banks have agreed to provide a $42m loan to the Alfa consortium of companies in Russia to fund the opening of six Moscow supermarkets. Some $17.5m has been syndicated to four banks, Bank Austria, FMO and Rabobank of the Netherlands and BPH in Poland.

WORLD TRADE NEWS DIGEST

Vietnam turns to leasing

The Export-Import Bank of Korea is expected today to receive a licence from the Vietnamese authorities to set up the country's first wholly foreign-owned leasing company. Hanoi has recently warmed to leasing as a way of helping usually financially weak Vietnamese companies get access to high-value machinery for infrastructure projects. Since it first allowed foreign investment in leasing in February, one joint venture has been approved, involving Banque Française du Commerce Extérieure and a World Bank affiliate, the International Finance Corporation. *Jeremy Grant, Hanoi*

Mitsui in Uzbekistan deal

Mitsui, the Japanese trading company, has signed a Y19bn ($170m) turnkey contract with Uzbekistan for an oil processing plant that is vital to the country's move towards self-sufficiency in energy. Uzbekneftegaz, an Uzbek state monopoly in oil and gas, hopes to produce 8m tons of oil and condensate this year, three times its production for 1991. This should enable the country to save hard currency and reduce Moscow's leverage on the central *Asian state*.

The Fergana refinery can process 6m tons of oil per year, producing mostly diesel and fuel oil. The new dehydrosulphurisation plant will handle 1.7m tons of oil. The European Bank for Reconstruction and Development and the Japanese Ex-Im Bank are considering jointly financing the project, with the Uzbek government paying 15 per cent up front. *Sander Thoenes, Almaty*

Pipeline will double gas flow

A second natural gas pipeline from Algeria to Italy will come onstream by January 1997, doubling the flow rate to 24bn cubic metres a year, according to SNAM, a subsidiary of Eni of Italy, which operates the pipeline. SNAM in 1983 started operating the Trans-Mediterranean pipeline, Transmed, which runs for 2,500km from the gas fields of Hassi R'Mel in Algeria to the Po Valley in Italy.

Transmed, which was designed to transport 12bn cubic metres, passes through Tunisia and the Sicilian channel in the Mediterranean. The work to double the gas flow, which started in 1992, was scheduled to be completed by 1996, but some additional improvements in the pumping stations had been necessary. *Reuter, Tunis*

■ Bofors of Sweden yesterday announced it had won a contract to supply anti-armour weapons to the French defence forces. Bofors said the contract for AT4 CS was awarded jointly by the French Direction des Systemes Terrestres et d'Information to Bofors and Thomson Dasa Armaments. The systems which will be delivered over three years. *Reuter, Stockholm*

■ Ericsson, the Swedish telecommunications group, has won a SKr1bn ($150m) order to supply and install switching equipment, from the Thai national telephone operator, Telephone Organisation of Thailand. During the next five years, the number of telephone lines in Thailand is expected to double, giving 20 per cent of the population telecommunications access. *AP-DJ, Stockholm*

■ British Petroleum and Tata, the Indian industrial group, have formed a joint venture company to produce and market lubricants in India. *Tony Tassell, Bombay*

American set for $6bn Boeing order

By Michael Skapinker, Aerospace Correspondent

American Airlines is expected to announce today it will buy over 100 Boeing aircraft worth about $6bn, provided the carrier's pilots agree a new six-year contract. The pilots' union leadership met yesterday to decide whether to recommend the contract to its members. If it decides not to do so, American is unlikely to make the announcement.

If the union decides to put the contract to the vote, American will announce it will buy Boeing 777s, 767s, 757s and 737s if the pilots vote to accept its offer. American has not released details of the proposed new pilots' contract. If voted on, the result is expected next month.

A decision by American to buy the aircraft would put Boeing ahead of Airbus Industrie, its European rival, for orders won this year. It would provide Boeing with some consolation after USAir's decision earlier this month to buy up to 400 single-aisle Airbus aircraft.

The USAir order was the airline's biggest, and a boost for Airbus, owned by Aérospatiale of France, Daimler-Benz Aerospace (Dasa) of Germany, British Aerospace and Casa of Spain.

Airbus suffered a string of defeats from Boeing, with the US company winning a large order from Singapore Airlines at the end of last year and from Malaysia Airlines earlier this year.

Airbus says it has suffered from not being able to offer as extensive a range as Boeing, because it has no large aircraft to compete with the Boeing 747-400, which carries 400 passengers.

But Airbus is planning to build the A3XX, a 550-seater, to compete with Boeing's "stretched" 747, also to carry 550 passengers.

In a related development, Rolls-Royce of the UK has invited Snecma of France to participate in developing the Trent 900, the British group's engine for the future generation of 550-seat aircraft.

The two manufacturers worked together on developing engines for Concorde, the Anglo-French supersonic aircraft, but Snecma has a long-term alliance with General Electric of the US, one of Rolls-Royce's fiercest rivals.

The invitation to Snecma was made this week by Sir Ralph Robins, Rolls-Royce chairman, during meetings with Mr Jean-Paul Bechat, head of the French group. Mr Bechat was appointed by the French government in June to replace Mr Bernard Dufour, who had been dismissed.

One of the French government's complaints about Mr Dufour was that he had allowed the relationship with GE to deteriorate which suggests Rolls-Royce might have difficulty winning Snecma's co-operation under its new management.

GE and Pratt & Whitney, also of the US, have joined forces to build a joint engine for the new large aircraft being planned by Boeing of the US and Airbus. The US engine joint venture has said that it would like Snecma to participate in its programme.

Big rise in use of new technology will benefit vehicle makers with electronics subsidiaries

South Koreans to win out in drive-by-wire revolution

By John Griffiths

South Korea's rapidly expanding carmakers stand to gain significant competitive advantage from an upsurge in the electronics content of cars over the next few years, according to research by the Economist *Intelligence Unit*.

The average value of electronic components in cars will soar from $920 per car now to over $1,700 within a decade, with the levels in North America and Japan exceeding $2,000, according to the research*.

While some of the added value will go to specialist electronics components suppliers such as Robert Bosch of *Germany, Valeo of France* and Rockwell of North America, vehicle makers which have their own electronics subsidiaries or affiliates can be expected to enjoy a "distinct advantage" over rivals without them, the study predicts.

Major South Korean car makers Hyundai and Daewoo, as part of large industrial groups with major electronics interests, will be particularly well placed to exploit this growth. They will be joined by Samsung, perhaps the best known of Korea's electronics concerns, which is itself to start car production next year, the *study observes*.

"These South Korean manufacturers will aim for competitive edge by building their cars around electronics systems, thus offering the customers more features at lower cost while reducing lead time and inventory.

"As a result they will be at least level with volume manufacturers in features, electronics systems and vehicle *dynamics by the year 2000,"* the research concludes.

The report forecasts that the value of the total world market for automotive electronics to $83.8bn in the year 2005, compared with $36.9bn last year.

The increase will be accounted for partly by adventurous new technologies such as intelligent cruise control, automatic col*lision-avoidance and satel*lite-based navigation systems, and partly by much greater integration of the car's engine, transmission and steering systems under electronic control. "Electronics will become the driving force behind vehicle design," the study predicts.

Some major western car companies, notably General Motors and Ford, and the *Japanese industry do have* their own large electronics interests and will be better placed than the European industry to repel Korean competition. However, European carmakers could enhance their own competitiveness by quickly agreeing common operating standards for advanced electronics equipments – particularly that involving communica*tions – and forging* alliances with electronics companies.

This is already starting to happen. Mercedes-Benz of Germany recently joined forces with IBM to develop a range of electronics components.

The financial importance of some of these systems is already becoming apparent. Volkswagen and Ford, for example, are poised to launch satellite-based route guidance systems as optional original equipment – developed with Robert Bosch and Philips respectively – for around $2,000.

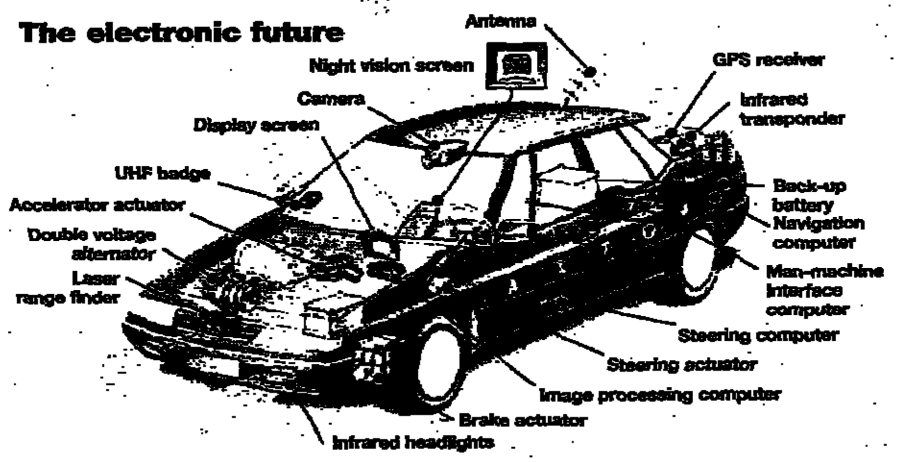
**The Electronics Revolution in the Motor Industry. The Economist Intelligence Unit, 15 Regent Street, London SW1Y 4LR. £645/$995.*

World automotive electronic industry

	Electronics content per car ($)			Automotive electronics market by region ($bn)		
	1995	2000	2005	1995	2000	2005
Western Europe	840	1,450	1,720	11.6	17.1	20.0
Japan	1,030	1,600	2,130	8.8	15.8	19.0
Nafta	1,150	1,680	2,080	18.0	20.6	25.5
South Korea	640	1,260	1,590	1.4	4.4	6.8
Pacific Rim (ex S. Korea)	400	780	1,080	0.8	2.8	4.8
South America & E. Europe	330	750	1,130	1.3	4.1	6.7
Average electronics content	920	1,420	1,740			
Total	-	-	-	36.9	64.7	83.8

Source: EIU

The electronic future



Vehicle electrics

Four decades of change

1960s
Lamps, radio, indicators, horn; dynamo, starter

1970s
Breakerless ignition, wiper interval timer, alternator

1980s
Cruise control, electronic fuel injection, mapped ignition; trip computer, lamp failure indicator, service indicator, electronic anti-lock braking system, electronic transmission control

1990s
Remote keyless entry, full powertrain control, election instrument cluster, adaptive suspension, theft deterrent systems, crash sensors/diagnostics, traction control, seat memory, integrated control unit, navigation system

2000
Vehicle radar, drive by wire intelligent cruise control, voice-activated switching

APEC SUMMIT IN MANILA

US hopes recede over pact to scrap IT tariffs

By Guy de Jonquières and Edward Luce in Manila

US hopes of securing solid backing from Pacific Rim governments for a global agreement to eliminate tariffs on information technology products appeared to be receding yesterday, in the face of widespread reservations among leading Asian countries.

The US is seeking to build a united front among the 18 members of the Asia Pacific Economic Co-operation forum, whose leaders hold *their annual summit in* Manila on Monday. Washington wants a deal finalised at the World Trade Organisation's first ministerial meeting in Singapore next month.

However, although Apec members broadly support *the idea of an IT agreement*, discussions in Manila have exposed divisions over exactly what it should contain. Several Asian countries, notably Malaysia and Korea, are worried that the deal envisaged by the US would enhance its electronics industries' dominance of world markets.

The lack of unity over the *IT proposal emerged amid* growing signs that many Apec members had put forward disappointingly modest plans for voluntary liberalisation to implement the group's objective of freeing all trade and investment in the region by early next century.

A senior US official yesterday cautioned that this week's talks were unlikely to *produce bold liberalisation* initiatives.

"If I were a short-term stock investor, I would not buy shares in Apec in 1996," *he said. "A long-term invest*ment would be more profitable."

A few Apec members which already have low tariffs, such as Hong Kong and Singapore, have offered to scrap them by 2010, while *the Philippines has pledged* to reduce tariffs on industrial products to 5 per cent by 2004.

However, many other countries are said to have offered to do little, or nothing, more than meet existing commitments under the Uruguay Round world trade deal.

Apec's hopes of achieving *consensus at this week's* meetings have also been marred by a US reluctance to go along with a scheme to introduce an Apec-wide visa for business travellers. The US is concerned that the scheme would weaken its control over immigration policy.

Differences over the proposed IT agreement centre on the kinds of products *which it would cover*. The US wants tariffs eliminated by 2000 on a wide range of items including semiconductors, computers, many types *of telecommunications* equipment and possibly software.

But many Asian producers of electronics products want a narrower scope, to protect their home markets from US competition. Even Japan, *which supports Washing*ton's position, concedes the US stands to gain most from a deal.

Some Apec officials still hope that heads of government can resolve this and other disagreements when they meet on Monday. But others fear any compromises may do little more than paper over the cracks.

Vietnam may bar foreign airport contractors

By Jeremy Grant in Hanoi

Vietnam is likely to ban foreign companies from building and upgrading airports for reasons of national security, dealing a blow to four foreign consortia hoping for a $185m contract to refurbish the country's largest gateway.

Mr Dinh Xuan Huong, director of the planning and investment department of the Civil Aviation Authority *of Vietnam* (CAAV), said yesterday his office had been told by the government that only Vietnamese companies should carry out the work on Tan Son Nhut airport, in Ho Chi Minh City.

"So far, the guidelines from the government are to borrow the money and do it ourselves," he said.

The consortia, which were shortlisted by the CAAV in *June, are Japan's Maeda* Group – which includes trading house Marubeni – Dywidag-Euromill of Germany, Airport Group International of the US – which includes Lockheed – and Dar al-Handasah, a Lebanese-*backed British company* twinned with Balfour Beatty.

All but the British had proposed joint ventures with Vietnamese companies for the project, which would involve building a new terminal capable of handling *10m passengers a year*.

Passenger traffic is soaring in Vietnam, and the country urgently needs to expand its airports to cope with future volume. Tan Son Nhut, once the scene of fierce fighting in the closing stages of the Vietnam war, is used by 18 foreign airlines as well as the fast-expanding flag carrier Vietnam Airlines.

Vietnam is sensitive to foreign involvement in its airports because they are *owned or part-owned by the* military. They are administered by the CAAV, whose board includes senior military figures. "It is very difficult *to invest in civil avia*tion projects in Vietnam because all are related to the issue of security and national defence," Mr Huong said.

Clinton backs action plans for free trade

By Nikki Tait in Sydney

US President Bill Clinton has reaffirmed Washington's commitment to the Asia Pacific Economic Co-operation forum and backed the *process of developing coun*try-by-country "action plans" in pursuit of free trade.

"It is very important, now *that we have the goal of free* trade in the area by 2020... that we actually take some concrete steps towards implementing our goal, from *tariff cuts to deregulation* measures," he said in Canberra.

Mr Clinton stressed that deregulation in the informa*tion technology sector was* the top priority for the Apec leaders' meeting in Manila next week.

"Currently, trade in that *area is* valued at a trillion dollars. It's projected to grow at over 250 per cent in the next 10 years. We need to do more to open up those markets," *the president said*.

He stressed that US export subsidies in the agricultural area were not designed to harm third parties. "We are *going to do everything* we can to ensure any future use of these programmes is not directly or indirectly working to the disadvantage of a country innocent of wrongdoing, in this case Australia."

The US Export Enhancement Programme and the *Dairy Export Incentive Pro*gramme have been a longstanding concern in Australia's large farm sector, with farmers arguing they deflate world commodity prices.

Particular concerns have surfaced recently that the US has been pushing subsidised products into some of Australia's traditional export markets, notably in Asia.

In a later speech to the Australian parliament, Mr *Clinton* repeated his "free trade" pledge, saying he was committed to work with Congress on market-opening opportunities around the world.

He also emphasised that the US remained committed to playing an active role in the Asian region, despite renewed involvement with Latin America and longstanding ties with Europe.

UN leader sees US veto as an honour

By Michael Littlejohns in New York

Mr Boutros Boutros Ghali sees himself as the symbol of the Third World majority against the only remaining superpower, and is determined to pursue his quest for reappointment as UN secretary-general, no matter how futile this may appear.

A close aide said last night that in the eyes of his supporters in the developing nations, the US veto cast in the Security Council on Tuesday was a badge of honour and no humiliation.

If more vetoes follow, as seems likely, the 74-year-old Egyptian diplomat would not consider this a disgrace, but "more medals to pin on his chest", according to Mr Ahmad Fawzi, his compatriot and deputy press secretary.

China exercised its veto power no fewer than 16 times in December 1981 to block the appointment of Mr Kurt Waldheim for an unprecedented third term. Mr Salim Ahmed Salim, now secretary-general of the Organisation of African Unity, was repeatedly vetoed by the US.

"One veto or 16, I doubt whether the secretary-general would consider it made much difference," Mr Fawzi said.

Mr Boutros Ghali, the grandson of a pro-British prime minister who was assassinated in 1904 when Egypt was a protectorate of Britain, is a proud man who felt deeply wounded when the US informed him last spring that he could not look forward to a second five-year term.

The secretary-general indignantly rejected a proposed one-year extension as a "dignified exit" after his 75th birthday.

Since then, officials say, he has received hundreds of letters and telephone calls from Americans and people all over the world declaring support and sympathising with him as the target of the nation that is the UN's biggest financial debtor.

Because he was backed by the OAU, Mr Boutros Ghali now feels an obligation to continue to stand up to Washington. Still, he acknowledges privately he has almost no hope of prevailing against a determined superpower whose continued support for the UN may well depend on his removal.

But the Security Council's patience is not inexhaustible and there are some signs that other contenders may soon appear, with Ghana already reported to be wavering in its support.

In the UN Secretariat, the prospect of the secretary-general's downfall has been greeted with mixed feelings. An autocratic boss who has surrounded himself with "a team of advisers" who complain that he usually does not take their advice, he is known as a hard task-master. One aide was even chided for taking time off for his honeymoon and told: "Don't let it happen again."

He first came to international attention when he accompanied President Anwar Sadat to Jerusalem in 1977. As a Coptic Christian in an Islamic state, he could never aspire to the top ranks of government service but was made deputy prime minister in the run-up to his UN election five years ago.

The 150-room Cairo palace reported to be his birthplace apparently was a figment of someone's imagination. The Boutros Ghali home had a mere 50 rooms, according to a member of his staff.

However, the secretary-general and his wife Leia are both millionaires several times over – she from a fortune made in chocolate.

Unlike their UN predecessors Mr Javier Pérez de Cuéllar and his wife Marcela, the Boutros Ghalis have never sought the pleasures of New York cafe society. Sorbonne-educated, the secretary-general seems happier in Paris, where he can usually count on a warm welcome at the highest levels of government and which he manages to visit during virtually every European trip.

President Jacques Chirac is believed to have a place for him in the organisation of francophone states after he leaves the UN.

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Boutros Ghali: proud man and tough master

Scramble to seek replacement likely

The UN Security Council must now prepare for a mad year-end scramble for a replacement to Mr Boutros Ghali that makes it far more likely that the UN will settle for the "least politically offensive" candidate rather than the best person available, senior officials believe.

The African states are expected to relent and offer other choices following a further US veto – perhaps next week.

The prospect then is for a period of deadlock. The US has proposed no alternative and appears unlikely to do so, if only because France has indicated that Washington's first choice is unlikely to find favour in Paris.

Diplomats expect that a slate of African candidates will eventually be offered, most of whom will either fail to obtain the required minimum of 11 votes or be vetoed if they gain that majority. The final decision then rests with the 185-nation General Assembly, where there is no veto and developing nations have the overwhelming majority.

Despite all the signs that the US will reject any compromise that would leave Mr Boutros Ghali in place after December 31, Mr Paolo Fulci, the Italian delegate who will preside over the Council's secret deliberations next month, is still proposing a two-year extension for the incumbent.

If the Africans fail to rally behind a candidate acceptable to the US, western diplomats say they risk losing their chance for the succession. In that case, an Asian is thought to be a likely choice although no one has yet mentioned a name.

How to be an Iranian Islamic feminist

By Roula Khalaf in London

An Iranian charm offensive to soften the image of the Islamic Republic introduced in London this week a hard-core but soft-spoken Iranian "feminist".

With a black shroud concealing her black trousers and red silk blouse, Mrs Fatemeh Hashemi – daughter of President Ali Akbar Hashemi Rafsanjani and sister of Faiza, Iran's most prominent female activist and recently elected to parliament – urged male and female reporters in London to ignore the "propaganda" they hear about women in Iran.

"There is only one restriction on women in Iran, it is the modest dress code. And it has been shown that the level of violence against women decreases where this dress code is observed," she said. "Basic principles in Islam give women perfect freedom and put them on equal footing with men."

Iranian women can receive up to 74 lashes for violating the dress code, and may be stoned to death for committing adultery, while the penalty for men is only flogging. Among other discriminatory rules under Islamic law, a woman's testimony is worth half that of a man and a daughter receives half her brother's inheritance.

After losing most of their rights in the 1979 revolution, including the 1967 Family Protection Law, which restricted polygamy and facilitated divorce, Iranian women have in recent years fought back and in some cases regained lost ground.

Family planning programmes have been relaunched and discrimination in higher education has eased. Women may now receive wages for housework and can sometimes in cases of divorce sue for back pay. The revolution led to the sacking of women judges but they are now acting as judicial advisers and, according to Mrs Hashemi, will soon become full judges with sentencing powers.

Mrs Hashemi, heads the International Union of Moslem Women's non-governmental organisations, which held its third conference in London this week to co-ordinate the promotion of women's rights in Moslem countries. This is no easy task since Moslem clerics are often in disagreement over acceptable interpretations of Islamic law. Her priority, she said, was to introduce changes in the laws seeking, for example, to establish women's right to divorce and to allow men and women to set conditions in a marriage contract.

Referring to Mrs Hashemi as an Islamic "feminist" may sound like a contradiction in terms. After all, she believes the revolution has led to significant achievements for women, citing for example improvements in literacy.

But this is a special kind of feminism, often ridden with contradictions.

Islamic law, the source of discrimination against women, is partly derived from Koranic verses but also includes recorded sayings of the prophet and conservative male jurists' decisions.

Mrs Hashemi said sayings and jurists' decisions could be subject to reinterpretation. This has allowed a lively debate on women's issues to flourish in Tehran, often fuelled by articles in a leading women's magazine, Zanan, which pit Islamic texts against each other in legalistic arguments proving that women judges, for example, are permitted under Islam.

But anything specifically and clearly stated in the Koran can never be questioned. And for these rules, all Islamic feminists can do is develop justifications.

On the issue of a woman's testimony, for example, Mrs Hashemi said in the same breath both that, "I cannot say the rule is unfair but we also cannot say that women are any lower than men, they have the same brain mass", and that inheritance laws were justified because, "it is the duty of a man to take care of a woman".

Iranian women are nevertheless far better off than their counterparts in neighbouring countries such as Saudi Arabia, where they are prohibited from mixing with men and deprived of even the right to drive cars. Mrs Hashemi's sister, Faiza, won the second highest number of votes in this year's legislative elections and has declared that nothing in Islam prevents a woman from seeking the presidency.

But Iranian women's success in reversing some of the early decisions of the revolution results in part from the fact that the campaign for women's rights has been led by the daughters of the moderate Iranian president. Mr Rafsanjani steps down next year, however, and could be succeeded by a far more conservative leader.

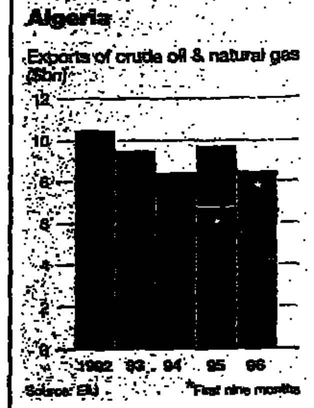
INTERNATIONAL NEWS DIGEST

Arafat seeks deal on access

Mr Yassir Arafat, president of the Palestinian Authority, yesterday demanded that Israel renegotiate its 1994 economic agreement with the Palestinians to allow free movement of people and goods in and out of the West Bank and Gaza strip. The Palestinian leader tabled his demand at a meeting in Paris with 34 donor governments, the World Bank and other international organisations. The donors pledged $845m in new investment funds for the Palestinian Authority next year, but Mr James Wolfensohn, the World Bank president, said the prevailing wish of the meeting was that Israel should unseal its borders with the West Bank and Gaza.

Mr Arafat complained that Israel's blockade of the Palestinian territories since February had reduced output by 20 per cent, hit agriculture disastrously, and sent unemployment up to the "dangerous" rate of 63 per cent. Israeli officials denied they had violated the 1994 economic accord.
David Buchan, Paris

Algeria back in the black



Algeria reported a $2.2bn trade surplus for the first nine months of this year, compared with a $1.13bn deficit in the same period in 1995. The improvement is largely due to higher oil and gas prices, which boosted exports, and bountiful rainfall, allowing Algeria to reduce food imports. Oil and gas sales, which make up 97 per cent of foreign exchange revenues, jumped more than 25 per cent, to $8.19bn in the first nine months of this year, from $6.76bn last year. *Roula Khalaf, London*

Chiluba wins flawed election

Mr Frederick Chiluba has won a second and final term as president of Zambia, following a landslide victory by his ruling Movement for Multiparty Democracy in Monday's general election. Opposition parties are likely to hold fewer than 20 of 149 parliamentary seats when the final result is announced later this week.

The result will trouble bilateral donors of foreign aid, who have criticised the government's failure to implement democratic reforms. Mr Chiluba's programme of economic structural adjustment is underpinned by $370m in donors' support and would be in jeopardy if donors continue to suspend aid.

Mr Chiluba has rebuffed appeals to lift laws banning Mr Kenneth Kaunda, 72, the former president, from contesting the election.
Mark Ashurst, Lusaka

Netanyahu orders more cuts

Mr Benjamin Netanyahu, the Israeli prime minister, yesterday said he would seek a further Shk2bn ($618m) reduction in the 1997 budget in a move aimed at reducing the deficit and the spiralling current account trade deficit.
Judy Dempsey, Jerusalem

Bucaram polishes his economic plans

By Justine Newsome in Quito

Ecuador's President Abdalá Bucaram, nicknamed *El Loco*, or "the Madman", is putting the final touches to his economic programme, now due for release next week.

Central to it is Mr Bucaram's desire to introduce an Argentine-style currency convertibility plan, under which Ecuador's currency would be fully convertible with the US dollar at a fixed nominal exchange rate.

Mr Bucaram, who has been advised by the architect of the Argentine plan, Mr Domingo Cavallo, believes convertibility would provide the sort of economic discipline that Ecuador needs.

However, others are less enthusiastic about being put into such a straitjacket.

For example, the central bank would be deprived of flexibility to deal with shocks to Ecuador's economy, such as a war with neighbouring Peru or a financial crisis, both of which have occurred in the past two years.

Some analysts question whether Ecuador really needs such a drastic measure, in which money is issued only if backed by hard currency reserves.

Inflation for example, is around 25 per cent, not the 5,000 per cent experienced by Argentina at the time. "Convertibility is not necessary in Ecuador, but it will not be negative or bad either," says one Argentine economist.

Looking at the Argentine experience of 19 per cent unemployment and a strong currency, unions and exporters are not happy at the prospect either.

Mr Pablo Concha, finance minister, has been attempting to soothe nerves. "Convertibility is being satanised because of unemployment," he complained a few days ago and says there is a lot more to the economic plan.

Indeed, the government is aware that important structural reforms and tight fiscal discipline will be needed to implement such a plan and stick to it. Top of the list, for instance, are measures to make the labour market more flexible, to restructure the current Monetary Board, and to improve supervision of the financial system.

Mr Concha plans to balance the 1997 public sector budget, but in order to do so, a host of reforms to reduce tax evasion, remove exemptions from VAT and even impose new taxes on luxuries are expected.

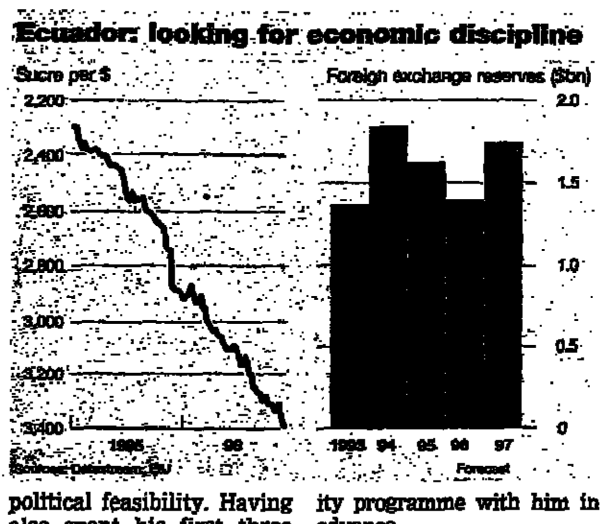
Telephone tariffs are set to rise up to six times, depending on the sector, from December 1 as state telecommunications company Emetel is prepared for privatisation in April. Electricity tariffs are set to follow suit. Reforms to budget-setting procedures, for example, by removing the executive's discretionary power to raise spending by 10 per cent more than the amount approved by Congress, are intended to complement specific revenue-raising measures.

Putting all these reforms mean it may be the end of next year before convertibility is adopted. But it is not just a question of time. Mr Bucaram also faces two big obstacles.

The first is credibility. Completing his first 100 days in office on Monday, Mr Bucaram faced a barrage of criticism for, among other things, the many policy announcements he has made, only to withdraw them a few days later in the face of opposition. Last week, he proposed a 1,000 per cent tax on alcohol and cigarette imports, also to discipline the population, but this week the proposal was withdrawn.

The second problem is political feasibility. Having also spent his first three months in office launching virulent attacks on political opponents from oil unions to ex-presidents to individual congressmen, Mr Bucaram has generated much ill-will. The largest opposition party, the Social Christians, have already refused to sit down and discuss the convertibility programme with him in advance.

As announcement of the economic plan now coincides with the end of the traditional honeymoon allowed a new government, Mr Bucaram may therefore receive little co-operation from congress when he tries to push through his reform programme.



Unexpected rise in US trade deficit

By Nancy Dunne in Washington

Sluggish world growth, rising oil prices and a decline in aircraft shipments unexpectedly propelled the US trade deficit to $11.3bn in September, up 10.1 per cent from August, the US Commerce Department said yesterday.

Merrill Lynch, the financial services group, said the depressing report implied that third-quarter gross domestic product growth, previously reported at 2.2 per cent, would be revised down to about 1.5 per cent.

"Both third-quarter net exports and inventory building will be revised down, though there will be small upward revisions," it said in its economic commentary.

Mr Mickey Kantor, the US commerce secretary, tried to put a cheerful interpretation on the numbers, saying that exports in goods and services were "on track to set new records in 1996", but the pace of foreign sales has been slowing.

The merchandise trade deficit was the second highest in five years, and the three months' moving average for goods, which economists deem to be more significant than the monthly estimates, was the worst ever. Deutsche Morgan Grenfell, the investment bank, described the goods deficit with a succinct, "Ugh!"

Analysts had expected an improvement from August's $10.8bn deficit, revised down to $10.3bn. "Month-to-month numbers are hard to predict," said Mr Charles McMillion of Washington-based MBG Information Services. "Aircraft sales are always volatile. Either you sell one of those big old suckers or you don't."

Aircraft shipments, accounting for about half of the decline in goods exports, fell from $1.35bn in August to $760m. Imports of petroleum products rose by 9.3 per cent to $5.97bn.

Castro puts his faith in an unlikely ally

A papal visit to Cuba has political as well as spiritual implications, writes **Pascal Fletcher**

When the visiting Vatican foreign minister, Mr Jean Louis Tauran, celebrated mass in Havana in late October, the congregation treated him to an ovation of cheers and applause at the end of the service.

As he left the church, shouts of "Libertad, libertad" (Freedom, freedom) were just audible amid the clamour. They were a reminder that Cuba's Roman Catholic Church is deeply engaged in the debate about the communist-ruled island's political future. This engagement is likely to increase after the announcement on Tuesday by the Vatican that Pope John Paul will next year visit Cuba, one of the few remaining single-party communist states in the world. The island is the only Spanish-speaking country in Latin America the Pope has not visited.

The announcement followed a historic meeting in Rome between the 76-year-old Pope and Cuba's veteran President Fidel Castro, whose revolutionary government once nationalised Catholic schools and expelled foreign priests and nuns after the 1959 Cuban Revolution. The prospect of a papal visit to Cuba is all the more interesting considering the Pope's formidable reputation as an anti-communist crusader.

Mr Castro's political foes said they were encouraged by the news. Despite the Vatican's declared opposition to the US economic embargo against Cuba, the US State Department said the Pope could play a role in promoting democratic change and protecting human rights in Cuba. Many rightwing Cuban exiles took a similar view.

None of this potential drama was visible at Tuesday's meeting. Mr Castro, who turned 70 this year and was once educated by Jesuits, behaved with all the studied meekness of a child making his first holy communion. He praised the Pope for his "greatness", humbly described himself as as a "modest politician" and said their meeting was a "miracle".

But many Cuban Catholics still remember the early years of the Revolution, when Mr Castro accused leaders of the Cuban Catholic Church, the dominant religion on the island, of siding with "counter-revolution". He later created an atheistic single-party communist state that virtually excluded Catholics from political life for three decades. Nevertheless, diplomatic ties with the Vatican were maintained. Catholic Church activity, although greatly reduced from pre-1959 levels, continued.

In the last decade, the Cuban leadership has moved to improve relations with religious groups. Constitutional changes in 1992 lifted the ban on religious believers joining the Communist party.

In the post-cold war world, where Mr Castro no longer enjoys the economic and political support of his former Soviet bloc allies, he would clearly prefer to have the Catholic Church as a friend rather than an enemy.

The Cuban leader sees the Vatican as a potential ally in his international campaign to overturn the longstanding US economic embargo against Cuba. The Catholic Church has openly criticised the US embargo, arguing it only hurts the Cuban people.

However, reconciliation with the Catholic Church could represent a political risk to Mr Castro and his regime.

While careful to avoid direct confrontation, the Church is an outspoken, influential, independent force in Cuba, a position which directly challenges the communist government's monopoly of political power in Cuban society.

Earlier this year, Cuba's Catholic bishops, led by Cardinal Jaime Ortega, angered government leaders by criticising an official crackdown against political dissidents and the February 24 shooting down by Cuban Migs of two small US aircraft. In the past they have attacked the monopolistic official ideology and widespread curbs on personal freedoms.

Despite the recent thaw in relations, the government has made clear it will not allow the Catholic Church to become a focal point of open political opposition. Not long ago, church services on big feast days were heavily policed by plainclothes security agents who quickly pounced on any worshippers shouting anti-government slogans.

Such incidents are rare these days. The Catholic bishops take care to preach a message of brotherly reconciliation, while seeking to increase the Church's role in society. Church leaders call for access to the state media and more freedom to expand religious teaching. They also press for a role in providing health and social assistance to the population.

These demands are couched in non-political terms, but they clearly threaten to encroach on the ruling Communist party's existing monopoly of social control. The party recently acknowledged the rise in religious worship but blithely concluded: "This does not represent a problem for the Revolution."

The number of regularly practising Catholics in Cuba is still low – one estimate in 1991 put the number at only 200,000 out of a population of 11m. But many more Cubans, encouraged by the increased official tolerance, would identify themselves as Catholics. Church attendance is up and the number of baptisms is reported to be growing rapidly.

This spiritual revival is likely to be boosted by the visit of the Pope.

Republicans back Gingrich

By Gerard Baker in Washington

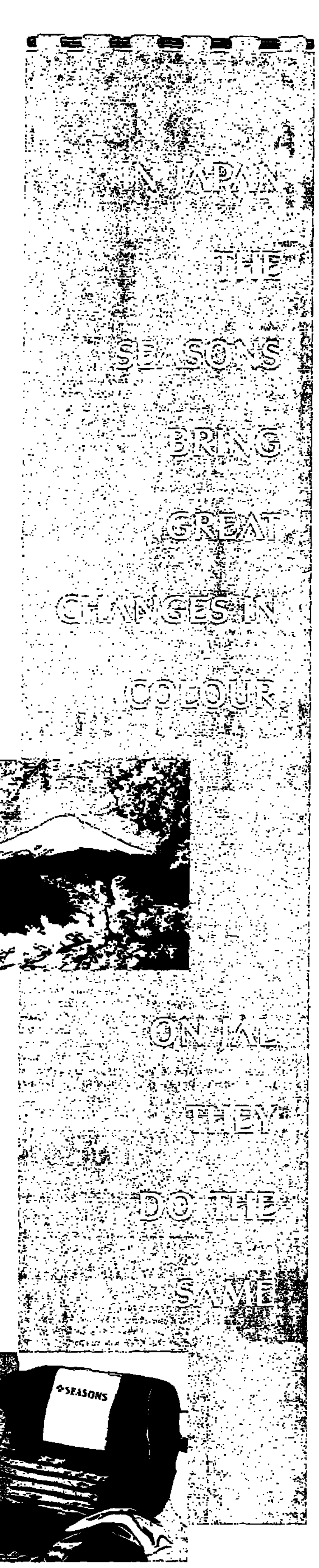
Mr Newt Gingrich yesterday received the unanimous backing of his Republican colleagues in the House of Representatives, all but ensuring his re-election as House Speaker for another two years.

Mr Gingrich was re-nominated by acclamation for the position of Speaker by Republicans, in a move that ended two weeks of speculation about a possible attempt to topple him by disgruntled colleagues.

Since the November 5 election that returned a Democratic president and a Republican-controlled Congress, several House Republicans have expressed disquiet about the wisdom of re-electing as their leader someone as evidently unpopular as Mr Gingrich.

His nomination by the Republican majority means he is almost certain to be re-elected by the full Congress when it convenes on January 7.

The only potential impediment to Mr Gingrich's re-election is a lingering concern over the outcome of an ethics investigation about some of his fund-raising activities. The report is expected to be released by January.



US and China press for better relations

By Tony Walker in Beijing

Qian Qichen, China's foreign minister, greets Warren Christopher and team yesterday Reuter

The US and China yesterday appeared to be intent on bolstering their relationship before a meeting this weekend between President Bill Clinton and Mr Jiang Zemin, his Chinese counterpart.

Mr Warren Christopher, the US secretary of state, said his "intensive series of meetings" with Chinese leaders reflected the importance both sides attached to strengthening relations.

But Beijing warned that continued US arms sales to Taiwan threatened improved ties. The US criticised China's human rights record, and Mr Christopher requested Beijing to release prominent dissidents.

Mr Christopher's meetings in Beijing coincided with Mr Clinton's first important foreign policy speech since his re-election, in which he called for deeper engagement with China.

Speaking to the parliament in Canberra during his Australian visit, Mr Clinton said the US had "no interest" in containing China.

"What the United States wants is to sustain an engagement with China... in a way which will increase the chances there will be more liberty and more prosperity," he said.

Mr Clinton and Mr Jiang will meet on the margins of an Asia Pacific Economic Co-operation forum summit in Manila. The meeting is expected to be the prelude to a series of high-level exchanges, including a state visit to Washington early next year by Mr Jiang.

Mr Christopher, in meetings with Mr Qian Qichen, China's foreign minister, Mr Li Peng, premier, and Mr Jiang, engaged in wide-ranging discussions which covered arms proliferation, North Korea, the forthcoming Asia Pacific Economic Co-operation meeting in Manila, and Hong Kong.

The two sides also agreed to push for the early implementation of a 10-year-old agreement on peaceful nuclear co-operation. Washington has said Beijing must strengthen export controls before it agrees to sanction transfers of nuclear technology.

"As we move forward on nuclear non-proliferation, the US is prepared to consider... further steps in the area of nuclear co-operation even in advance of the 1985 agreement," he said.

Mr Christopher added that the US had made clear its "strong concern" about China's nuclear co-operation with Iran. Implementation of the 1985 agreement would open the way for possibly billions of dollars of US nuclear sales to China.

The US officials pledged strong support for China's entry to the World Trade Organisation "on commercially meaningful terms". The US is pressing China for further economic liberalisation and improved market access.

Victoria in gas tax settlement

By Nikki Tait in Sydney

A long-running tax dispute between the Victorian state government and BHP Petroleum and Esso Resources, the equal joint venturers in the Bass Strait oil and gas fields, was resolved yesterday, with the government agreeing to make a pre-tax lump-sum payment to the joint venturers of about A$1bn (US$790m).

The settlement is likely to pave the way for reform of the state's gas industry, and possibly see eventual privatisation of the state-owned Gas & Fuel utility. Mr Jeff Kennett, state premier, said yesterday the deal should establish a more competitive gas market.

Various proposals would allow for greater competition in the supply of gas and greater interstate gas sales, have been held back partly by the continuing tax issue. For example, BHP said yesterday it believed the deal should clear the way for the Victorian government to approve a pipeline to supply Bass Strait gas into New South Wales.

The Victorian government has already called on consultants to advise how gas industry restructuring might proceed, and some commentators believe privatisation is likely to be the eventual outcome. The state government has already raised over A$10bn from the sale of electricity assets to the private sector.

The BHP Petroleum/Esso Resources dispute centred on whether the two companies had the right to pass on the "petroleum resource rent tax" imposed on Bass Strait gas production in 1990 by the federal government, to two state government-owned utilities. The utilities – Generation Victoria and GASCOR (now Gas & Fuel) – were big gas customers.

The matter has been subject to arbitration, appeal and then settlement discussions for several years.

BHP, Australia's largest company, said yesterday its share of the lump-sum payout would be A$511m, or some A$227m after tax and PRRT. The amount it would take in as profit would be A$167m, of which A$107m related to the period up to end-October 1996, and the other A$60m to gas to be supplied over the remaining contract periods.

BHP shares rose on news of the settlement, closing 55 cents higher at A$18.15.

Singapore sees hint of upturn

By James Kynge in Singapore

Singapore announced yesterday that its non-oil exports rose slightly in October, providing hope that the island state may be starting to climb out of an export slump which has depressed the wider economy.

Investors on Singapore's stock market were heartened by the the tentative first signs of a recovery. The benchmark Straits Times Industrials Index rose 24.10 points to close at 2,194.28.

The market has fallen steadily over the last few months as scarcely any part of the economy appeared immune from a downturn precipitated by falling exports, mainly of electronics goods.

Property prices have eased, retail sales show a downward trend, port operators, shipyards and shipping companies have encountered difficult times, and some electronics companies have recorded steep losses.

Hence the widespread relief at an albeit modest indication of better times. Exports rose a nominal 1.1 per cent to S$7.68bn (US$5.5bn) in October from the same month a year ago, the government's Trade Development Board said. In September exports fell 6.3 per cent and in August 6.2 per cent.

The poor trade performance prompted the government to revise downward its full-year gross domestic product forecast to 6 per cent this year from an original prediction of between 7.5 to 8.5 per cent.

There were signs in October that sales of electronics items, which make up about 60 per cent of non-oil exports, are picking up after a prolonged slump because of soft demand in the US and Japan.

Semiconductor exports, seen as a barometer for the electronics sector, climbed 1.7 per cent after two consecutive months of declines. Sales of disc drives, integrated circuits and microcomputers to the US – Singapore's biggest market – were also higher.

Economists said that the outlook for electronics goods is generally strong because the key US book-to-bill ratio is showing, for the first time in several months, that orders are exceeding actual sales.

The healthier trade picture follows data which showed that Singapore's beleaguered retail sector may be about to recover from months of declining fortunes. Although retail takings in September fell 2.6 per cent compared to the same month a year ago, when compared to August the figures show an increase of 4.2 per cent.

Bangladesh stock market protest

By Kasra Naji in Dhaka

Police used tear gas yesterday to disperse thousands of demonstrators outside the Dhaka stock exchange, where prices have fallen sharply after recent record performances.

The protests apparently broke out after brokers from the exchange threatened to take legal action against the Securities and Exchange Commission, the market watchdog, for stopping company directors from becoming brokers.

Scuffles broke out between the kerb traders and brokers, who were accused of manipulating the market. The kerb market has born the brunt of the selling pressure after the exchange introduced a "circuit-breaker" limiting price movements to a daily 5 per cent.

Prices on the unofficial kerb market fell 20 per cent yesterday, while the official Dhaka index touched 3,298, a fall of only 2.73 per cent. It has fallen for three consecutive days from 3,627 on Saturday. Yesterday the volume of trading plunged from Tk298m ($7m) to about Tk166m. "Brokers are pushing the prices down in order to buy cheaply from the kerb market," said Mr Safiqul Islam, a kerb trader.

The demonstrators, mostly kerb traders, blame stock exchange authorities for the rapid fall in prices. "They are simply panicking," said Mr Imtyaz Hussein, chairman of the exchange.

Last month, the authorities introduced the circuit breaker of 5 per cent on the floor of the exchange to limit volatility after a heady rise in the index from about 1,100 in September to the 3,500 level in early November.

The recent bull market has attracted many small investors to the kerb market. The authorities say 10m people are involved in the share markets.

World Stock Markets, Page 36

Beijing lets the Yangtze's 'dragon tail' break free

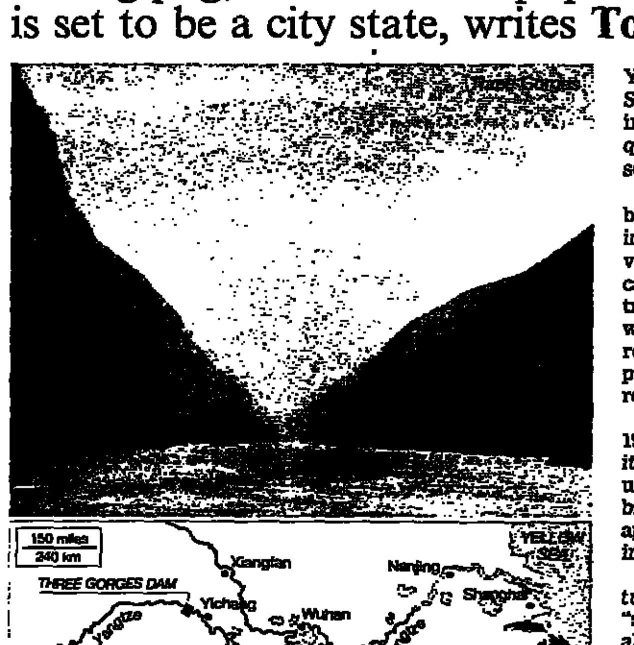
Chongqing, China's most populous centre, is set to be a city state, writes **Tony Walker**

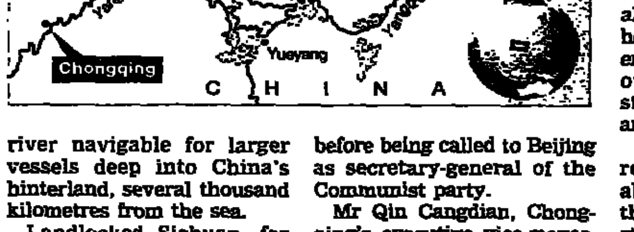
Governor Song Baorui of Sichuan tries to put the best face on things, but from early next year his "empire" will be reduced by a third when Chongqing, the province's largest city and China's most populous, becomes independent.

"I will support the proposal, but I won't be sponsoring the motion," he says of a requirement that the National People's Congress, China's parliament, approve Chongqing's new status, equal to that of a province.

Amalgamation of Chongqing and surrounding areas into an inland "city state" of 30m people out of Sichuan's population of 113m is one of Beijing's boldest administrative moves, and reflects leadership concern about the need to boost activity in the depressed interior.

But there is no doubt Chongqing's "separation" from Sichuan – the city and three surrounding counties account for 26-28 per cent of Sichuan's economy – is a difficult pill for provincial leaders to swallow.





From next spring, Chongqing's status will match that of Beijing, Tianjin and Shanghai – China's existing "city states", all of which are powerful commercial entities and important players in their own right on the national stage.

Sichuan, whose gross domestic product was Yn353.4bn ($42.5bn) in 1995, ranks fourth in economic output among all provinces, but with Chongqing removed from the equation, its weight will inevitably diminish nationally.

Proponents of Chongqing's "conversion" to a city-state argue the new entity will become a catalyst for development throughout China's entire south-west, benefiting Sichuan in particular.

Governor Song says "separation will be conducive to both China and the province and also beneficial to the Three Gorges project". This project is the giant dam on the Yangtze River, whose waters will lap at Chongqing's doorstep, making the river navigable for larger vessels deep into China's hinterland, several thousand kilometres from the sea.

Landlocked Sichuan, far away from booming coastal areas, certainly needs a boost. Despite its importance to China's economy, its share of foreign trade nationally is minuscule. Exports in 1995 accounted for 1.7 per cent of the national total.

Sichuan's share of foreign investment is a fraction of the national figure. By the end of 1995, investment stood at $5.55bn, against total utilised investment in China of about $180bn.

Chongqing's leaders expect its upgrading to stimulate investment and return the city to the status it enjoyed in the early 1950s as the administrative centre of the entire south-west region.

In those years, revolutionary leaders, including Deng Xiaoping, China's patriarch and best known Sichuanese, were in Chongqing. Mr Deng served as first party secretary and political commissar before being called to Beijing as secretary-general of the Communist party.

Mr Qin Cangdian, Chongqing's executive vice-mayor, describes as a "heavy and arduous task" the city's plans to become the financial services, trading and high-tech centre of the south-west by 2010. In the process, Chongqing would be made into a "modern, industrialised city on the upper reaches of the Yangtze".

Chongqing's trade volume at the end of 1995 stood at Yn45bn. The city plans to double it by 2010 with a growing foreign component. Mr Qin acknowledges foreign investment in the city and environs of $700m is "relatively small". In the future, he says, "we'll need to increase that figure drastically".

Completion of the Three Gorges project by 2009 should benefit Chongqing substantially, since it will attract new investment and tourism. The dam will extend for some 663km from Yichang on the border of Sichuan and Hubei Province, creating a vast "inland sea" covering 600 sq km.

Not only will Chongqing benefit from the dam, allowing passage to 10,000-tonne vessels, the city is, in any case, becoming the region's transport hub. An expressway to Chengdu, the regional capital, was completed this year; other trunk routes are being built.

Mr Qin said since the mid-1980s Beijing had recognised its importance and had gradually given it more responsibility, including the right to approve foreign investments in projects up to $30m.

But Chongqing's new status and proximity to the "showcase" Three Gorges is already imposing additional heavy burdens on local government responsible for an overcrowded city built on steep banks of the Yangtze and Jialing rivers.

Construction of the dam requires expenditure of about Yn20bn to clean up the environment, notably stopping raw effluent pouring into the rivers. It is estimated that 80 per cent of Chongqing's sewage is untreated. Dozens of polluting factories will also have to be closed or moved.

Local entrepreneurs make no secret of their satisfaction at Chongqing's rise in status. Mr Liao Changguang, reputed to be one of the city's richest men, says Chongqing should now find it easier to attract foreign investment.

He predicts that improvements in Chongqing's infrastructure, its existing strong industrial base and improving transport links will facilitate investment, especially from Taiwanese with wartime links with the city. Chongqing was the Nationalist capital during the war with Japan. "If Shanghai is the dragon head of the Yangtze Valley," he says "Chongqing is its tail."

ASIA-PACIFIC NEWS DIGEST

Korea OECD terms to pass

Parliamentary approval of South Korea's membership in the Organisation for Economic Co-operation and Development appears assured, after the main opposition parties decided to drop plans to block a vote on ratification. A parliamentary vote on ratification, the last hurdle to South Korea becoming the 29th member of the OECD, is set for next Tuesday.

In a last-minute compromise, the government agreed to postpone a vote until next week and offered concessions on political reforms to break opposition resistance. The two main opposition parties had tried to postpone OECD entry by several years because they believed economic reforms associated with membership could disrupt the already weak Korean economy and in order to apply pressure to win concessions on proposed political reforms. *John Burton, Seoul*

Vietnam debt scheme in sight

Vietnam's central bank said yesterday it had finalised its response to proposals for settling $900m in commercial, or London Club, debt. But a senior central bank official admitted: "We try our best to follow the schedule, but there's a delay of about two to three weeks." He denied earlier reports that the delay extended to two months.

The proposals, contained in a draft "term sheet", set out a repayment and financing regime for Hanoi to clear the arrears, mostly owed to Japanese banks. But the plan must be accepted by Vietnam's London Club creditors before that can start. Representatives of the central bank and a foreign bank advisory committee would meet to draw up a final term sheet, probably in New York in the next few weeks, the official added. *Jeremy Grant, Hanoi*

Pakistan plans samurai issue

The Pakistani government is planning to issue samurai bonds in the Japanese market worth between $150m and $300m in the next two months to boost its foreign exchange reserves, a senior official said yesterday. "This is a good time to borrow in the yen market because of the low yen interest rates," he said.

This would be the first time that Pakistan, battered by recent political uncertainty and a downgrading of its investment rating by Moody's investment service, has tapped the Japanese bond market. The planned offer follows a sharp depletion in official foreign exchange reserves. Last week they rose to $674m, enough to finance just over three weeks of imports, up from $610m in October, but still well below reserves of $1.7bn in June.

Separately yesterday, the finance ministry reassured depositors that their foreign currency deposits would remain immune from scrutiny by tax officials in spite of a series of anti-corruption laws announced on Monday. *Farhan Bokhari, Islamabad*

International Capital Markets, Page 24

Indian foreign bank permits

The Reserve Bank of India is to allow four more foreign banks to open offices in the country, it said yesterday. The four banks are Hanil Bank, Commercial Bank of Korea, Sumitomo Bank and the People's Bank of Sri Lanka, a bank official said. Yesterday's announcement brings to eight the number of foreign banks which have been granted permission to open offices in India since February. *AP-DJ, Bombay*

NEWS: UK

Eurotunnel may resume partial service

By Charles Batchelor and Jimmy Burns in London

Prospects of an early resumption of full train services through the fire-damaged Channel tunnel improved last night following six hours of discussions between Eurotunnel officials and Anglo-French security experts.

Mr Alain Bertrand, Eurotunnel operations director, forecast that a partial service of freight trains would be resumed "within a few hours" while he had high hopes of passenger trains starting to run "by the end of the week".

This breakthrough followed talks in Calais with the Channel tunnel safety authority, the body responsible for tunnel health and safety.

It came after a day of growing concern about the company's safety procedures and a warning from a British fire chief that the safety of passengers could not be guaranteed if a partial reopening of the tunnel was allowed. Eight of the 31 passengers and three train crew were hurt in Monday's blaze.

Eurotunnel's shares fell a further 2p to 86p ($1.32) following Tuesday's 3¼p fall. The shares of rival ferry operators P&O and Stena rose 1p to 607½p and SKr1.10 to SKr30.50 respectively.

There was growing evidence that the fire had broken out on the freight shuttle before it entered the French end of the tunnel. Security officials who spotted the blazing trucks were unable to stop the train before it had gone 17km into the tunnel.

Mr Robert Malpas, co-chairman of Eurotunnel, acknowledged that claims by the French transport minister, Mr Bernard Pons, that the train was on fire when it entered the tunnel might be true. "As I understand it, there is substance to that story.

"These were not railway people; they were security people checking the environment of the Calais terminal. They reported to their headquarters; their headquarters then reported to the rail control centre and by the time this sequence of events had taken place, the train was well into the tunnel."

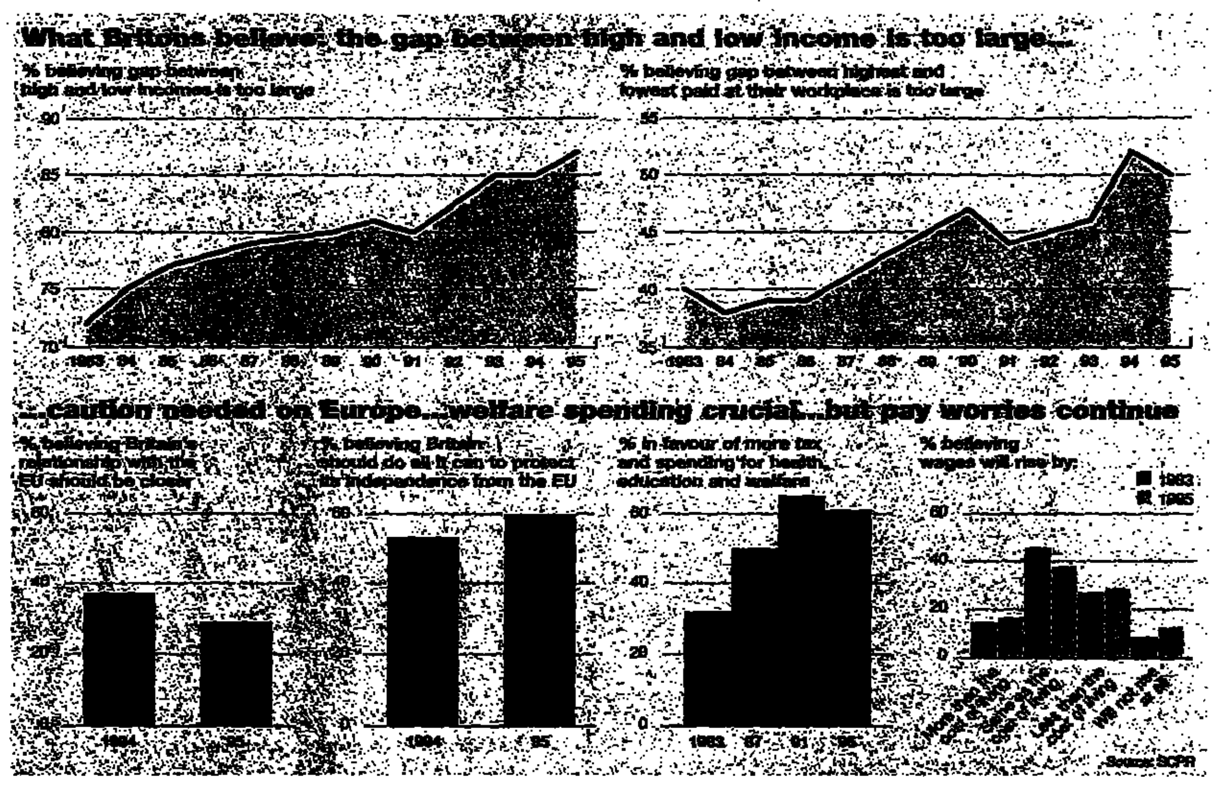
Mr Mike Fordham, assistant general secretary of the Fire Brigades Union, said: "We believe that if Eurotunnel opts for a partial reopening before the damage is repaired and a full inquiry into the fire is completed, there is an unacceptably high risk of a disaster occurring."

At the same time concern about the damage caused by the fire increased with reports that a longer section of tunnel – 740 metres – had been damaged than originally thought.

The UK Road Haulage Association warned that its members were experiencing difficulties in finding alternative ferry transport in the approaching peak Christmas season. The undamaged tunnel was in restricted use yesterday to move staff between the Folkestone, Kent, and London terminals.

Latest social attitudes survey shows more people sceptical about uniting with Europe

Gap between rich and poor is 'too wide'



By Nicholas Timmins, Public Policy Editor

Britons are more relaxed about sex and drugs, more Eurosceptic, more willing to contemplate euthanasia but now believe almost unanimously that the income gap between rich and poor has become too wide, this year's British Social Attitudes Survey shows.

The annual "super-snapshot" of Britons' view of their world shows a nation far from entirely at ease with itself, and unclear about its identity.

But it feels economically more confident and the narrowing of the north-south divide in Britain could benefit the ruling Conservative party at the general election, the study concludes.

A large majority of the public is now happy with the idea of frank sex scenes being shown in cinemas and on television – but not if they portray homosexuality. Disapproval of bad language on television remains high, however.

There has been a sharp shift over the past decade in attitudes to legalising cannabis, although a small majority still oppose the idea.

On attitudes to Europe, a new Eurosceptic trend may be gathering strength. Only 32 per cent of Britons wanted the country to "unite fully with the European Union" last year, compared with 40 per cent in 1994, although the figure remained higher in Northern Ireland at 45 per cent.

Just 29 per cent believed Britain's relationship with the EU should be closer, compared with 37 per cent in 1994.

One of the survey's starkest findings, however, is on incomes. It shows that 87 per cent now believe the gap between the highest and lowest incomes is too large. That view, a 15 percentage point rise since 1983, is now held equally firmly by all social classes, income groups and levels of education, in sharp contrast to a decade ago when higher income groups were least likely to believe that the gap was too big. It is among them that concern about inequality has increased the most, the study says.

The better off are also keen to preserve key parts of the welfare state – most notably health and education. They not only join the rest of the country in wanting more spent in these areas, but say they are also prepared to pay more tax themselves to achieve that, the study found.

That held true even among those who already have private medical insurance and who already pay school fees, with high levels of support for more education spending – even at the price of more tax – suggesting that many of the better-off are reluctant converts to private schools.

If state schools were better, they would happily use them, the study suggests.

The findings suggest, the study says, that "at the very least, the 'comfortable' top third recognise that a country which neglects its health service, schools and police forces could become an increasingly uncomfortable one in which to live" – even for the better off.

But the study also found that the unemployed were even less willing than in 1983 to take what they regard as an "unacceptable" job – 51 per cent would be unwilling to do so as a way out of long-term unemployment, half as many again as in 1983. People are also slightly less willing than they were to retrain if they become unemployed.

Finance minister boosted by retail sales surge

By Graham Bowley, Economics Staff

Mr Kenneth Clarke, the UK's chief finance minister, will go into next week's Budget against a background of renewed buoyancy after figures yesterday showed retail sales grew last month at the fastest rate for two years.

The recovery in sales after a slowdown in September was still less than some economists expected, easing fears that strong growth during the summer was becoming unsustainable and would lead to inflationary price rises.

But Mr Clarke faced pressure for a further rise in interest rates after separate figures yesterday showed the fastest growth in the quantity of money circulating in the economy since January.

The Office for National Statistics said retail sales volumes rose by a seasonally adjusted 4 per cent in the three months to October compared with the same period last year. This was the fastest growth rate since October 1994. Sales volumes were up 0.4 per cent between September and October.

The strongest sales increases were in large food stores – a sign that the big supermarkets are enjoying better trading conditions after weak growth since the early summer. Sales of clothes and some household goods such as carpets were also stronger.

The Bank of England, the UK central bank, said M4, the broad measure of money supply that includes notes and coins and bank and building society deposits, grew 10.3 per cent in the year to October.

The measure, which is watched closely by the Bank and the Treasury as a sign of future inflationary pressures, has been at, or above, the ceiling of the government's 3-9 per cent monitoring range since autumn last year.

The British Bankers' Association said consumers borrowed £507m ($836.5m) in new credit from the UK's biggest banks – close to the record levels of last spring. Borrowing by manufacturers was also buoyant.

The upbeat picture of consumer spending was reinforced by a survey yesterday for the European Commission by GfK, the polling group, which showed consumer confidence continued to recover at a fast pace this month.

The unexpectedly sharp pick-up in the money supply unsettled financial markets. UK government bonds – gilts – fell half a point before recovering slightly.

Futures markets are now anticipating interest rates of about 6.75 per cent by the election, expected next spring, compared with 6 per cent at present.

Mr David Walton, an economist at Goldman Sachs, said: "Continued strength of monetary growth along with upward moves in other leading indicators of inflation will maintain the pressure on the chancellor to raise base rates again soon."

Deputy premier backs group to oppose tax plan

By Jane Martinson and David Wighton

Mr Michael Heseltine, the deputy prime minister, is backing the formation of a lobby group composed of all the UK's privatised companies as the government steps up its campaign against the UK opposition Labour party's windfall tax on the utilities.

Mr Heseltine, who will today lead an attack on Labour's plans in the House of Commons, is supporting calls by leading industrialists for a united front to promote the benefits of privatisation.

Although the group aims to be non-political, Mr Heseltine's involvement will be seized on by Labour as evidence of a covert programme by government and business to undermine its tax plans.

The initiative comes as Labour faces the prospect of a concerted campaign by US energy groups threatened by its tax proposals. Mr Jim Miller, a Washington lawyer and former budget director in the Reagan administration, yesterday revealed that he is trying to bring together a group of companies to lobby Washington over the tax.

Mr Miller wants the campaign to be headed by Mr Lloyd Bentsen, President Clinton's former Treasury secretary.

Plans for the UK lobby group are being co-ordinated by Sir Colin Marshall, chairman of British Airways and president of the Confederation of British Industry. Together with Mr John Neill, chief executive of Unipart, the car parts group, Sir Colin has invited the heads of almost 80 privatised companies to a private breakfast meeting in three weeks' time.

During the meeting in central London, the two aim to announce "plans, without political bias, for the formation of a group dedicated to promoting the success of privatised businesses".

Some groups have already declined the invitation, including National Power, the generating company, and Hyder, the Welsh multi-utility.

The invitation avoids political references or any attack on Labour's windfall tax. But it points out that privatisation has attracted "widespread criticism because of dangerously flawed perceptions". Benefits to the economy, customers and employees have "become obscured, if not disregarded, in recent years," it adds.

A wide range of listed companies have been invited to the meeting: they include utilities, transport groups such as National Express and Prism Rail, aerospace companies such as British Aerospace and the British Airports Authority, and telecommunications groups like British Telecommunications and Cable and Wireless. Five US companies have bought or are bidding for UK electricity companies.

Move on referendums proposed

By John Kampfner, Chief Political Correspondent

The UK's opposition Labour party yesterday raised the prospect of legislation enshrining the use of referendums in British parliamentary life.

Mr Robin Cook, shadow foreign secretary, said a referendum act would allow plebiscites to endorse parliamentary approval for big constitutional changes.

A Labour government is theoretically committed to at least five referendums. These include devolution for Scotland and Wales, an authority for London, change to the electoral system and, because of a policy shift this week, participation in European monetary union.

Votes could also be held to establish assemblies for individual English regions. In addition, any final settlement for Northern Ireland would have to be ratified by the people of the province, in accordance with the present Anglo-Irish agreement. In each case, a clause allowing for a referendum would have to be included.

Mr Cook, one of the shadow cabinet's strongest proponents of constitutional change, said: "I strongly take the view that what Britain now needs is a parent referendum act."

Speaking at a parliamentary press lunch, Mr Cook said such an act would set out the rules for a referendum, including the size of the majority needed to mark popular assent and the "nature of circumstances in which a referendum is required". If a piece of legislation fell into that category, a referendum would be triggered by a House of Commons order.

Catch-all rules for referendums are attractive as they get round accusations of governments seeking to manipulate the result. This happened during the last devolution referendums in 1979 when a simple majority was deemed insufficient.

Labour is considering the best way to implement of its referendum commitments.

'Death trap' becomes model oil platform

A $2bn North Sea project has brought safety to a fine art for partners Shell and Esso

From a distance, the mass of red and yellow steel making up the Brent Charlie oil platform in the northern North Sea looks much as it must have done in the late 1970s, when it was installed as part of the first wave of offshore production platforms.

But ask anyone involved in the most ambitious fields redevelopment project undertaken by the UK offshore oil industry and they will tell you it has been transformed in recent months.

At times, up to 1,000 workers have swarmed over the platform, which lies along the demarcation line with Norway, 186km north-east of Lerwick in the Shetland Islands. They have reinforced the platform's steel skeleton and gutted much of its obsolete interior.

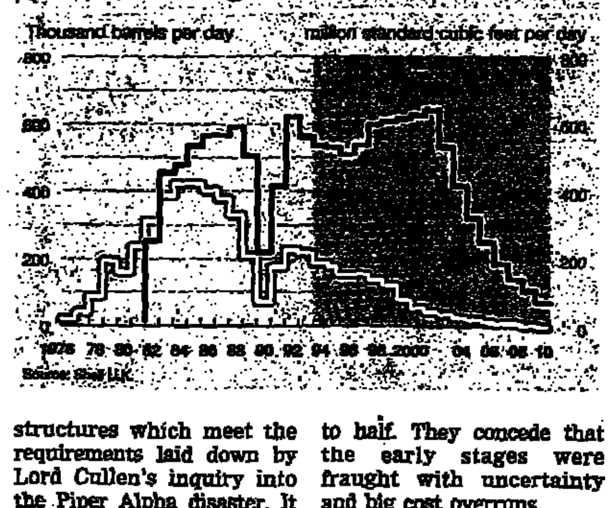
Twenty kilometres of new piping and 260km of new electrical cable were installed, along with state-of-the-art electronic control systems and an automated drilling rig.

"Instead of living with what some people would call a death trap, we now have something that is bang up to date," says Mr Peter Reilly, the project manager for Shell UK, the operator of Brent, the UK's biggest oil and gas field.

Like the ill-fated Piper Alpha platform, which was destroyed by a series of explosions in July 1988, causing the loss of 167 lives, the original design of Brent Charlie had the high pressure oil and gas units "in the wrong place", says Mr Reilly.

"If anything had gone wrong, we would have lost the whole platform and everyone on it."

The £1.3bn ($2.14bn) Brent redevelopment project will enable Shell and its partner Esso to turn Brent Charlie – and the other two main platforms in the field – into structures which meet the requirements laid down by Lord Cullen's inquiry into the Piper Alpha disaster. It will also extend the life of the Brent field to at least 2010, about 13 years beyond its original life expectancy.



With two-thirds of the project completed, Shell executives are confident that they will be able to slash the field's operating costs by up to half. They concede that the early stages were fraught with uncertainty and big cost overruns.

Work on Brent Bravo, the first platform to be redeveloped, was "a pain in the neck", says Mr Walter Van de Vijver, the field's general manager.

The complexity of "brown field" engineering on the scale envisaged was not fully appreciated before work started, say executives.

"Previous brown field projects involved thousands of offshore man hours. This was millions," says Mr Reilly.

Problems came from many sources. The original engineering drawings proved to be unreliable guides to what had actually been built. Work also began before the new design was complete. Mr Reilly remembers times in the early stages of the Bravo redevelopment when costs "were almost out of control". He recalls: "There was a point when you didn't know where it would end."

Fitting new equipment into confined spaces was especially difficult. It was complicated by the need to maintain gas output. Economic uncertainties were also a threat. The life extension of the fields is based on the gradual de-pressurisation of the reservoir. This will release a massive 1.5 trillion cu ft of gas currently trapped in the remaining oil.

At the beginning of the redevelopment wholesale gas prices collapsed, leaving executives to wonder whether an already marginal project could end up as an uneconomic one.

The uncertainty about future oil and gas prices is one reason why Shell is so keen to cut costs and ensure that Brent remains viable. Another factor behind the efficiency drive is to put off the day when the company needs to think about decommissioning the Brent platforms, which sit on top of huge concrete cylinders resting on the sea bed. These are considered to be the most difficult type of offshore platform to remove. "Thank God it's still so far away," adds Mr Reilly. "It will be a massive endeavour to remove them and we have no clear idea how to do it."

Robert Corzine

UK NEWS DIGEST

Car production hits a record

Car production soared in October to the highest level for that month in the industry's history. With the increase mainly export-led, and output for the year as a whole firmly on course for another 20-year high, the Society of Motor Manufacturers and Traders last night claimed the "outstanding" figures as the clearest evidence yet of a solidly-based resurgence for the industry.

Figures released by the Office for National Statistics yesterday showed October's car output reached 179,963, a 39.3 per cent jump over the 129,192 achieved in the same month last year. Within this total, the rise in output for export markets was even sharper – up 54 per cent, to 105,192 from a year-ago 68,299.

Industry analysts said last night the rises in part reflected stronger than expected markets in Continental Europe. Most industry analysts had been forecasting only about 3 per cent growth for new car sales in western Europe this year. However, at the end of the first 10 months, they were running more than 7 per cent higher than a year ago with only France expected to show any significant sales slump before the end of the year. Production of commercial vehicles also rose sharply last month – by 33.7 per cent year-on-year, from 17,138 to 22,909. Again the rise was export driven, with a leap of 147 per cent, to 10,668 from 4,316. *John Griffiths*

■ ROADS NETWORK

Call for independent regulator

Britain's roads network should be supervised by an independent regulator in the same way as other privatised utilities, the British Road Federation, representing companies and individual motorists, said yesterday.

The regulator would set service standards, monitor the performance of those organisations responsible for roads services and restrain unfair increases in roads charges, Professor Douglas McWilliams said in a report commissioned by the federation. At present the roads network is run as a monopoly with the government setting charges and service levels but the private finance initiative is leading to private sector operators building and managing sections of road.

Prof Keith Madelin, co-author of the report, called for the government to distinguish between main roads – the function of which was to aid traffic movement – and local roads with the role of providing access. This would allow each to be managed more effectively. *Charles Batchelor*

■ CRIMINAL JUSTICE

Report criticises youth system

The youth criminal justice system wastes public money, is inefficient and broadly fails to help victims or prevent re-offending, a new report by the Audit Commission says.

In a study published today, the public spending watchdog says most of the £1bn ($1.65bn) spent each year on young offenders goes on cumbersome bureaucracy. It says relatively little is done either to address offending behaviour or to monitor re-offending after different punishments.

The main opposition Labour party's Mr Jack Straw, shadow home secretary, condemned the findings as a "damning commentary" on the failures of the youth justice system. Mr Andrew Foster, commission controller, said the report showed there was a great deal of room for improvement in the current system. *Mark Suzman*

■ LIBEL ACTION

Two cents for Republic's ex-PM

Mr Albert Reynolds, the former prime minister of the Republic of Ireland, yesterday had his libel damages from The Sunday Times newspaper increased from nothing at all to one penny (2c).

A High Court jury decided on Tuesday that the newspaper had libelled Mr Reynolds when it suggested he had misled the Irish parliament but awarded him "zero" damages. The trial judge, Mr Justice French, ruled that since the jury decided Mr Reynolds had been defamed, he was entitled to nominal damages.

The judge has yet to rule on how much Mr Reynolds should pay towards the legal costs of the case, thought to total £1m ($1.65m). He may also consider whether the newspaper can successfully defend itself against the libel charge on the grounds that its article was protected by qualified privilege. *John Mason*

■ RIVER THAMES

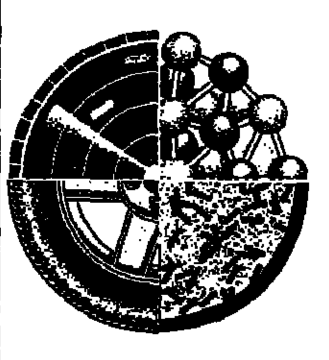
New plan for commuter ferries

Family-owned company White Horse Ferries is the latest enterprise to launch a plan for a fleet of commuter ferries on London's river Thames.

White Horse, which is trying to involve private and corporate investors in its plans to fund the operation of new craft, believes there is sufficient demand for a service carrying 5m commuters a year to their offices in central London while proposals for celebrating the millennium at Greenwich will also boost tourist traffic. A previous attempt to run a Thames commuter ferry service, by the RiverBus group, failed in 1993 because of the high cost of operating the boats and a shortage of suitable piers in the City.

Mr Peter Lay, a director of White Horse, believes his company will succeed because it has its own shipyard, at Gravesend on the river, which can make the 60-passenger vessels it needs for £250,000 ($412,500) – much less than was paid by Riverbus. *Charles Batchelor*

Worth Watching • Andrew Baxter



Checkpoint scan to check out

With volumes of world trade rising and greater use of containers, customs officials at border checkpoints are under enormous pressure to detect illegal or dangerous objects. But traditional inspection techniques, such as visual and manual searches, are time-consuming and can be ineffective.

X-ray technology is now coming to the rescue. Finnish-based Metorex International has launched Metorscan, which uses X-rays to scan very large objects in real time and onsite, at locations such as border crossings, military installations and ports of entry.

The process automatically transports objects, such as trucks as long as 25m, through a shielded inspection port. The entire contents of trucks, trailers and cargo containers can be scanned in two minutes, helping to locate suspicious items quickly and potentially reducing border delays.

Metorex International, tel Finland 932 9411, fax 932 941300.

Microgyroscope in a chip

Traditional gyroscopes are often used as compasses but their application has been limited elsewhere because of their high price and cumbersome size. Korea's Samsung Advanced Institute of Technology has developed a prototype for what it claims will be the world's first vacuum-packaged microgyroscope.

A microgyroscope is a sensor that can be used to detect angular velocity in a range of directions. Samsung's will measure 1mm by 1mm and is contained within a single silicon chip, using its own semiconductor process.

Samsung says the prototype heralds a revolution in gyroscope technology, as the highly-sensitive microgyroscope could be used in consumer goods such as hand-held video cameras, cars and information sensors.

Samsung Europe, tel UK (0)181 380 7000; fax 380 7050

Sludge buster muscles in

An innovative low-cost pump system to separate waste slurries into solids and water has been launched by Zardah Separation of the UK.

The Sludge Buster, invented by farming engineer David Hoare, is based on a peristaltic pump, which imitates muscular contraction on the intestines. It is designed to be cheaper than an impeller pump, need little maintenance, pump slurry without getting blocked, run dry without seizing up and start instantly after a six-month lay-up.

Zardah Separation, tel UK (0)1580 713519; fax Charles Dimpfl on UK (0)171 253 7500

Warpage control on board

Printed circuit boards are used in everything from portable radios to supercomputers, but they can warp if exposed to too much heat. For manufacturers, warpage during production can lead to heavy losses, particularly if expensive components have already been added.

Georgia Institute of Technology has developed an experimental technique called Thermoire to provide real-time data about PCB warpage, helping manufacturers avoid design problems and save money.

The system is based on a special oven with a top made of glass etched with equally spaced parallel lines. A white light is shined onto the PCB, and warpage is captured digitally by measuring the pattern produced by the shadow of the lines on the PCB's surface.

Georgia Institute of Technology, tel US 404 894 3444, fax 404 894 6983

Science Picture Library

'Nothing short of miraculous': drugs include treatments for children with 'bubble boy' disease

Victoria Griffith on the US system for encouraging development of treatments for rare diseases

Orphans' home

When Ronni Shulman, a public relations officer in New York, discovered she had scleroderma, her emotional pain was heightened by the rarity of her condition. "Not only did I have to face having a potentially fatal disease, I also had to deal with the fact that no one I knew had heard of it. It makes you feel very lonely."

Apart the isolation, sufferers of rare disorders also experience hopelessness at having a disease with no treatment. There is no cure yet for scleroderma, which causes the body to produce excess collagen, which then encases and hardens skin and internal organs. "In the most severe cases, patients turn to stone," says Shulman.

Yet Connective Therapeutics, a California-based biotechnology company, is in clinical trials for a collagen relaxant called ConXn. If all goes well, the drug may give new hope to patients such as Shulman.

Connective, like many other companies in the US, has been enticed into studying this rare condition because of advantages under the Orphan Drug Law, in place since 1983. The US experience with the legislation may hold some valuable lessons for the European Commission, which is considering a similar law for Europe.

The US legislation is meant to motivate companies to study disorders that would otherwise not generate enough financial rewards. The law guarantees swifter and more lenient review by the Food and Drug Administration (FDA) for any drug addressing a rare disease, which is defined as affecting no more than 200,000 Americans. About 9 per cent of all Americans can be expected to contract a rare condition in their lifetime.

From a product standpoint, the law has been fabulously successful. Since the act was passed, 140 products for rare disorders have been approved by the FDA, compared to just 10 in the previous decade. "This has spawned a whole new industry," says Marlene Haffner, director of the office of orphan product development at the FDA.

The law may not be wholly responsible for the change. Most orphan drugs in the US have been developed by small biotechnology companies with an interest in studying diseases that the big companies have not made a priority.

For biotechnology groups the promise of having any approved drug to their credit was once strong incentive to pursue approval under the Orphan Drug Law. Biotechnology groups used the easier route to market to prove their research prowess to Wall Street. "You used to be able to use these drugs to showcase your technology," says Robert Shorr, vice-president in charge of research and development at the biotechnology group Enzon. "But that's not working very well right now. Wall Street doesn't want to see just any drug; they want blockbusters."

Some notable products have already emerged, including treatments for Gaucher's disease, which results in an enlarged liver; "bubble boy" disease, which causes babies to be born with no functioning immune system; and premature puberty.

"A number of treatments are nothing short of miraculous for some patients," says Abbey Meyers, president of the National Organisation for Rare Disorders. "Babies born with bubble boy disease used to die within the first few years of their birth. Now, they catch diseases like chicken pox, recover, and go on with their lives."

Researching drugs for classification under the orphan drug law presents peculiar advantages and problems, say scientists. Standards under the legislation are not nearly as rigorous as they are for other diseases; a typical orphan drug trial may use 20 patients or fewer. Yet researchers say coming up with even that number is not always easy. When Enzon conducted its trials for Adagen, for instance, there were just 40 to 50 identified sufferers of bubble boy disease in the world. "Locating enough people to do a trial can be a challenge," says Michael Hershfield, the Duke University professor who headed the Adagen experiments. Companies work through academics and national foundations to help identify candidates for trials.

Despite the hurdles, many companies have found working with rare diseases to be a surprisingly lucrative business. The biotechnology group Genzyme, for instance, had \$215m (£128.7m) in sales last year from Ceredase, its Gaucher disease product, and Genentech chalked up \$219m in 1995 for sales of Protropin, the human growth hormone.

Rare diseases can yield hefty profits for several reasons. Diseases affecting about 200,000 Americans may be seen as rare under the law, but actually represent a sizable market. Some disorders, moreover, may be considered unusual in the US but are common in other parts of the world, where companies eventually market their products. For example, treatments for malaria, leprosy and African sleeping sickness have all been developed under the Orphan Drug Law over the past decade.

Some companies develop the treatment for a rare disorder only to discover that the drug works on a more common ailment. Human growth hormone was originally developed by Genentech to treat the 10,000 American children with dwarfism. Later, however, it was shown to work on other growth deficiencies.

"The main reason we look at a rare disorder like Werner's syndrome is to see what it teaches us about other, much more common diseases," says David Galas, chief scientific officer at biotechnology group Darwin Molecular. Darwin is studying Werner's, which causes premature aging, to gain insights into cardiovascular disease and osteoporosis. The company is not planning to seek approval under the Orphan Drug Act, however.

In other cases, a single aspect of the research, such as a drug delivery mechanism, can later be applied to treatments for more common – and therefore more profitable – ailments.

To confuse the issue further, some diseases that start out as rare becoming increasingly common with time. Aids, for instance, was once defined as a rare disease. Early research took place with an eye to orphan drug status, and the condition was not re-classified until 1993.

Because orphan drugs sometimes yield unexpectedly large profits, the FDA has received complaints that the law is being abused by companies looking for a short cut around the FDA's normally stringent approval process. "There has been some talk of defining orphan drugs according to actual sales, rather than according to how many Americans are affected by the disease," says Haffner. "But I think that criticism has been toned down lately. This law has obviously done so much good that everyone is reluctant to fiddle with it."

ARTS

Cinema/Peter Aspden

In the business of retribution

Uptight: Dustin Hoffman in 'American Buffalo'

AMERICAN BUFFALO
Michael Corrente

KANSAS CITY
Robert Altman

MR RELIABLE
Nadia Tass

SUNCHASER
Michael Cimino

GABBEH
Mohsen Makhmalbaf

If there is one movie set in the world one should avoid when directing one of cinema's most notorious Method Actors, it is that of an old junk shop. The temptations to do business with just about any implement that comes to hand are simply too great. About two-thirds of the way into *American Buffalo*, Michael Corrente's taut, claustrophobic adaptation of David Mamet's play, it becomes impossible to concentrate any longer on Dustin Hoffman's vigorous invective and you become obsessed by his restless hands.

How many more old postcards will he pick up and flick through? Is he opening that cigarette case for any reason, or is it simply nervous energy? Does he really need to comb his lank hair every couple of minutes? By the time he delivers his terrible tantrum and takes to smashing rather than fiddling, we are secretly egging him on. Go on, get it out of your system. No-one should be *that* uptight.

Mamet's brilliant evocation of small-time criminality stands or falls by the credibility of his lead actors, and, despite the occasionally distracting fussiness, he has a dream ticket here. Hoffman is Teach, a sharper, more sinister relation of *Midnight Cowboy's* Ratzo, who spends the day sparring with his long time buddy and poker partner Donny (Dennis Franz), a man of fewer words but a greater capacity to transcend the petty viciousness of the world in which both men have been raised.

Donny is plotting revenge against a customer whom he thinks cheated him when buying a rare American buffalo head nickel from his shop. He plans to steal the nickel back, and wants to use his young sidekick Bobby (Sean Nelson) in a kind of initiation rite. But Teach convinces him otherwise, and plants seeds of mistrust in Donny's mind. The two men goad, rile and bluster with each other until their already-dark moral universe becomes completely opaque.

As *NYPD Blue* viewers will attest, Franz can achieve as much with a violent narrowing of the eyes and a nervous twist of his bulky neck as Hoffman can with a hangar-full of props, and he provides a sizzling counterpoint to his co-star's fidgety aggression. Nelson, so impressive in *Fresh*, provides solid support while director Corrente sensibly declines to open out the play, relying on the dramatic tension between his two leads to deliver Mamet's bitter message on business, friendship and loyalty.

There is much distracting fussiness too in Jennifer Jason Leigh's impression of Jean Harlow (via Bugs Bunny teeth and Donald Duck pitch of voice) in Robert Altman's depression-set *Kansas City*. Leigh's Blondie O'Hara is also in the business of retribution: she kidnaps the wife (Miranda Richardson) of a political big-wig after her own husband is kidnapped by a gang of criminals led by the growling, cryptic Seldom Seen (Harry Belafonte).

Blondie is obsessed by Harlow and copies her hair colour out of a bottle; her abductee Carolyn Stilton is permanently strung out on laudanum. The two women's pharmaceutical dependence helps them occasionally to form an unlikely, fragile bond; but can it survive the seething violence which lurks beneath the surface of things?

As always with Altman, the narrative unfolds obliquely, in this case against a backdrop of vibrant jazz and political chicanery (it is the eve of election day, 1934). His characters, particularly Belafonte's coolly cruel gang leader, deliver scabrous monologues just like the sax players swapping riffs in the Hey-Hey Club, venue of the legendary "cutting contests" between Lester Young and Coleman Hawkins.

Despite a poignant ending, the human interest never quite matches the style – a common Altman failing – but as in all this renascent director's works, there is always enough going on in the margins to sustain attention – look out for the 14-year-old Charlie Parker clutching his alto in the balcony of the Hey-Hey, vowing to make it one day as a Clint Eastwood bio-pic.

It seems much more than three decades between Altman's morally complex 1930s and Nadia Tass's unashamedly feelgood 1960s. The true, and truly dippy, story of *Mr Reliable* could surely not have taken place in any other decade. Petty criminal Wally Mellish (Colin Friels) is living with his girlfriend and her baby in a derelict house when a couple of local policemen turn up to question him for a minor offence.

An irritated shotgun blast and a couple of misunderstandings later, just about the whole of Australia's police force is camped outside Mellish's home in an armed siege. All they have to do is attack the house and put an end to the nonsense: but this is 1968, the police have been under attack for their clumsy handling of Vietnam demonstrations and want to show their human side.

Soon, the Mellish hinterland is anticipating Woodstock: there is free love in the fields, acoustic guitarists strum their pro-Wally anthems, and citizens assert their fundamental freedoms in front of anxious policemen ("I won't have anyone telling me where I can and cannot have a barbecue").

The siege takes increasingly surreal twists, including a wedding and the farcical shooting of a dog, while the ending, as the good folk of Glenfield, Sydney might say, is a beaut. Tass's comedy is sharply-observed and comfortably passes the True Story Test, in which an audience has to keep asking itself: "Did this *really* happen?"

This is not to be confused with the Fallen Director Test, in which a movie is so disturbingly daft that we have to keep asking: "Did he *really* do this?". Michael Cimino's *Sunchaser* is one of those, alright. Woody Harrelson is woefully miscast as oncologist Michael Reynolds who makes the fatal mistake, when his life is looking just perfect, of playing a song called "What a Difference a Day Makes" on the car stereo.

Sure enough, his complacency goes the way of his bright red Porsche when he is abducted by Blue (Jon Seda), a half-Navajo teenage killer who is suffering from a rare cancer, but who hopes to find some kind of salvation at a sacred lake in his homeland.

Reynolds is initially hostile, then just sceptical; then he gets bitten by a rattlesnake only to be cured by Blue attaching jump leads to his calf muscle, and then they bond a little, and finally they are slapping high fives despite the fact that Blue is nearly dead and Reynolds has not changed underwear for three days.

There is a startling cameo by Anne Bancroft as a hippy doctor who believes in mysterious healing powers, and an appalling musical score which must have strayed in from the Western playing in the cinema next door. Horrible.

Gabbeh is a slow, demanding but rather touching folk-tale from Iranian director Mohsen Makhmalbaf, who follows the adventures of a tribe of carpet weavers, in particular the young woman who has to show endless patience before she can offer herself to her mystery lover.

The tribe encounters life, death, sorrow and joy on its bleak travels, all of it recorded on the gorgeously-coloured *gabbeh* carpets woven by the women. There are some agonisingly long scenes of goat herds behaving as goat herds will, but the harsh landscapes of south-east Iran are wonderfully captured by director of photography Mahmoud Kalari.

Opera/Andrew Clark

'Soldaten' simplified

The first observation to make about the new English National Opera production of Zimmermann's *Die Soldaten* (Soldiers) is that it puts a highly polished façade on the work's horrendous performance difficulties. It is strongly cast, the music unfolds with exemplary clarity, and the staging carries a powerful punch. This is a magnificent company effort.

Under Elgar Howarth, the ENO orchestra proves that Zimmermann's music is much more listener-friendly than its reputation would suggest; and by moving the setting to the present, producer David Freeman underlines that the macho attitudes which bred war and violence in the past are no less potent in today's world.

What sparked reservations at Tuesday's performance at the Coliseum was Freeman's simplistic approach: set in front of a bombed-out neo-classical ruin, it missed the multi-layered complexity that lies at the heart of Zimmermann's work. Freeman ignores the composer's idea of time-collage – the telescoping of past, present and future into a single frame. The only simultaneity Freeman offers is of image, by dextrously using the back wall to flash all-too-familiar televisual rushes of present-day violence. And even there, the implied link between sport, animal combat and military brutality is spurious. As a result, the staging reduces the opera to conventional terms of protest.

The contemporary setting also narrows the tragic impact of Marie's downfall. The slide towards prostitution and degradation is as sad today as ever, but Freeman does not account for the fact that the choices open to women are also much wider. Loss of virginity does not have the same connotations as it did in the 18th century, when a girl could end up a social outcast. That is a crucial point in the Lenz play on which the opera is based. And that is why in terms of human drama – which is what opera-as-theatre is about – Freeman's concept seriously undercuts the expressive force of Zimmermann's vision.

What we get instead is a mirror-image of violence in the 1990s, from video games to impressions of Bosnia; and as with Glyndebourne's *Lulu*, the reflection comes in a moralising, sermonising tone – as if to say "this is your disgusting world, and all you do is sit there like stuffed pigs". Freeman offers nudity and graphic sex, and shrouds every scene in the visual shorthand of military life – all of which is superficially impressive, but hardly calculated to elevate the symbolic quality of the drama. Underneath, the debate about whether or not *Die Soldaten* is a great work remains camouflaged.

Within their own terms of reference, however, Freeman and his designer, Sally Jacobs, engineer a seamless, sharply-focused sequence of scenes, encouraging the eye to quick-cut between stage and screen. The macho banter of the officers' mess is particularly well characterised; so is the sleazy amorality of the café (portrayed here as a strip club), which finds a ready echo in Zimmermann's jazz idiom but fails to make sense of the on-stage percussion effects. The pace slackens in the second half, but achieves a harrowing inevitability in the final apocalypse.

The cast is rightly dominated by Lisa Saffer's Marie, who combines the fatal sex appeal of a Jodie Foster, the naive and gauche impulsiveness of a Fergie, and the vocal agility of a high-wire artiste. It is thanks to her courageous performance that Freeman's concept scrapes home. Jon Garrison brings gentlemanly veneer and arrogance of rank to Desportes, whose treacherous lines he negotiates convincingly. Roberto Salvatori conveys the doomed determination of Stolzius, while Marie Angel brings a sumptuous voice, though poor diction, to the Countess. The smaller roles are cast from strength, and the English translation comes over well.

Technically, the orchestral performance is a triumph, with a deceptively clean blend between offstage percussion and the main body in the pit. Thanks to Howarth it is also a triumph of musicianship, reflecting unexpectedly well on Zimmermann's powers of characterisation: the best examples are the woodwind obbligatos in the domestic scenes and the fluttering quality of the seduction foreplay. But the instrumental voicing of Zimmermann's phantasmagorical tutti is just as effective. This is the first British production of *Die Soldaten*, and it deserves to be seen.

Alastair Muir

A courageous performance: Lisa Saffer as the tragic Marie

Musical/Ian Shuttleworth

'Superstar' shows its age

The show which truly put Tim Rice and Andrew Lloyd Webber on the musical map in the 1970s *Jesus Christ Superstar* is now the cause of the Lyceum Theatre's return as a permanent West End venue after half a century. This is a big event, but then Lloyd Webber seems to have decreed that everything about his shows is now to be big (*By Jeeves* succeeds largely by dint of Alan Ayckbourn's efforts in forbidding such an approach.) In the Lyceum, however, we get the works.

John Napier's set of timber and masonry, grilles and gas jets, looks somewhere between a derelict colosseum and a catacomb; as the performing ensemble extends around the auditorium on walkways, so the audience penetrates the stage from precarious galleries at the rear.

Richard Ryan's sound design is loud. For this, let it not be forgotten, is a pop opera. And, refreshing as it is to hear Lloyd Webber working with more straightforward chord changes (albeit in self-consciously unusual time signatures), the years have not been kind. What was once mould-breaking is now musically and lyrically slight and dated. Recognising as much, the creative team applies huge production values to buoy the show up.

It does not work. David Hersey's lighting settles into a tedious gloom slashed by spotlights (except at the moment of Jesus' death when instead of "darkness over all the earth" a great white light momentarily blazes); almost without exception Gale Edwards' direction makes obvious choices, strong in overall vision but losing its advantage through laxity concerning individual performances and moments.

Steve Balsamo's tall, slim, Celtic Jesus is opposed by Zubin Varla's squat, sinisterly foreign Judas and a King Herod (Nick Holder) who suggests an inflatable Richard O'Brien: Jesus's and Judas's vocal scores respectively serve as a reminder that, at the time of composition, the world's hottest male vocalists were Robert Plant of Led Zepplin and Deep Purple's Ian Gillan. However, Balsamo turns in a wonderful performance on Act II's solo "Gethsemane"; laurels too, for the 50-mega ton bass voice of Steve Fortune as Caiaphas.

This revival has to compete with shows (including Lloyd Webber's) which are more able to bear the weight of these opulent trappings. However, it has been commanded to be a sensation, and since more is deemed to be better, this is how it is made to be sensational. My own response was unexpectedly mirrored by a final bemusing touch of stagecraft. To signify the mortal departure of Christ from this earth, behold, a not especially mighty drizzle covers the land.

At the Lyceum Theatre, London WC2 (0171 416 6000).

INTERNATIONAL ARTS GUIDE

■ AMSTERDAM

CONCERT
Concertgebouw Tel: 31-20-6718345
● Radio Filharmonisch Orkest: with conductor Peter Eötvös and the Huelgas Ensemble perform works by Brumel and Birtwistle; 3pm; Nov 23

■ BERLIN

CONCERT
Philharmonie & Kammermusiksaal Tel: 49-30-2614383
● Berliner Barok-Orchester: with conductor Konrad Latte, violinist Madeleine Carruzzo, flautists Susanne Ehrhardt and Christine Fehr, cellist Kerstin Feltz and harpist Maria Graf perform works by J.S. Bach, Vivaldi and Handel; 8pm; Nov 22
Staatsoper Unter den Linden Tel: 49-30-20354438
● Requiem: by Mozart. Conducted by Detlef Steffen, performed by the Staatskapelle Berlin and the Konzertchor der Staatsoper Unter den Linden. Soloists include soprano Christiane Libor, alto Annette Elster, tenor Christian Voigt and bass Kwangchul Youn; 7.30pm; Nov 23

EXHIBITION
Alte Nationalgalerie Tel: 49-30-2035550
● Manet bis Van Gogh. Hugo von Tschudi und der Kampf um die Moderne: exhibition on the occasion of the 100th anniversary of the appointment of Hugo von Tschudi as director of the Alte Nationalgalerie. Main theme of the exhibition is his leading role in the introduction of "modern" French Impressionist art in Germany. The display includes works of French art that were acquired in those days by the Alte Nationalgalerie and other German museums and collectors; to Jan 6

■ BRIGHTON

EXHIBITION
Brighton Museum and Art Gallery Tel: 44-1273-603005
● The Inner Eye: Art Beyond the Visible: the inner world of dreams and fantasies has inspired artists from the Middle Ages to the present day. Old Master drawings of religious ecstasy and miracles, visionary images by Bruegel, Fuseli and Blake, "spirit" photographs and conjuring devices all feature in this touring exhibition from the Hayward Gallery. The exhibition includes works by such artists as John Linnell, Julia Margaret Cameron, Eugène Delacroix, Richard Dadd, Vassily Kandinsky, Martin Schongauer and others; from Nov 23 to Jan 5

■ COPENHAGEN

EXHIBITION
Charlottenborg Exhibition Hall Tel: 45-33 13 40 22
● Charlottenborg Autumn Exhibition: this year's edition of this event, which was first organised in 1928, features works by 33 young artists from Denmark and other countries in the sections Painting, Sculpture/Installation, Architecture, Lithographic Art, Arts and Crafts, and Photography and Multi Media; to Nov 24

■ LONDON

CONCERT
Barbican Hall Tel: 44-171-6384141
● London Concert Orchestra: with conductor Paul Wynne Griffiths, sopranos Janice Cairns and Juliet Booth, tenors Alan Woodrow and Peter Bronder and the Goldsmiths Choral Union perform excerpts from Puccini's Madama Butterfly, Manon Lescaut and Gianni Schicchi; 8pm; Nov 23
Wigmore Hall Tel: 44-171-9352141
● András Schiff: performance by the pianist, accompanied by violinists Erich Hobarth and Yuuko Shiokawa, cellist Boris Pergamenschikow and horn-player Radovan Vlatkovic. The programme includes Brahms' Violin Sonata in D minor, Op.108, Cello Sonata in F, Op.99 and Horn Trio in E flat, Op.40; 7.30pm; Nov 23

DANCE
Royal Opera House – Covent Garden Tel: 44-171-2129234
● The Prince of Pagodas: a choreography by Kenneth MacMillan to music by Britten, performed by the Royal Ballet. Soloists include Darcey Bussell and Jonathan Cope; 7.30pm; Nov 22

■ LOS ANGELES

EXHIBITION
MOCA at California Plaza Tel: 1-213-626-6222
● Jennifer Pastor: the first solo museum exhibition of Los Angeles-based artist Jennifer Pastor, this exhibition includes a freestanding sculpture and a new series of works that draw on archetypal, pictorial motifs regarding the four seasons; from Nov 24 to Mar 2

■ MADRID

CONCERT
Auditorio Nacional de Música Tel: 34-1-3370100
● Real Orquesta Sinfónica de Sevilla y Coro U.P.M.: with conductor Cristóbal Halffter, mezzo-soprano Perelstein and pianist Bashkirov perform works by De Falla, Beethoven and Halffter; 10.30pm; Nov 22

EXHIBITION
Biblioteca Nacional Tel: 34-1-5807800
● Ydioma Universal: exhibition focusing on Francisco de Goya's graphic work. The display features not only works by the Spanish artist himself, but also works by contemporary artists and old masters, including Ceán Bermúdez, Dürer, Carraci, Piranesi, Rembrandt, Rubens, Van Dyck and Tiepolo. The exhibition features more than 300 works, including prints, sketches, drawings, books and manuscripts; to Dec 19
Fundación la Caixa Tel: 34-1-4354833
● Photography and Society in Franco's Spain (The Sources of Memory III): this exhibition shows the social changes which occurred in Spain during Franco's government, using documentary and creative photographs from the period. The display brings together more than 200 works by Spanish photographers as well as images taken by foreigners who visited the country during this time. This is the third in a series of exhibitions entitled "Sources of Memory"; to Nov 24

■ NEW YORK

CONCERT
Avery Fisher Hall Tel: 1-212-875-5030
● American Symphony Orchestra: with conductor Leon Botstein and the Arnold Schoenberg Choir perform Schmidt's The Book of the Seven Seals; 8pm; Nov 22
Carnegie Hall Tel: 1-212-247-7800
● Symphony No.9 in D Minor, Op.125: by Beethoven. Conducted by Nikolaus Harnoncourt, performed by the Chamber Orchestra of Europe and the Arnold Schoenberg Choir. Soloists include soprano Luba Orgonasova, mezzo-soprano Birgit Remmert, tenor Endrik Wottrich and baritone Thomas Hampson; 8pm; Nov 23

■ PARIS

EXHIBITION
Musée Auguste Rodin Tel: 33-1 47 05 01 34
● Rodin – Les Marbres de la Collection Thyssen: this exhibition features six marble sculptures by Auguste Rodin, commissioned by August Thyssen (1842-1926) in 1905 and 1906; to Jan 5

■ ROME

CONCERT
Accademia Nazionale di Santa Cecilia Tel: 39-6-3611064
● Mass No.2: by Bruckner. Conducted by Norbert Balatsch, performed by the Coro dell'Academia di Santa Cecilia. Part of the Festa di Santa Cecilia; 11am; Nov 22

■ VIENNA

DANCE
Wiener Staatsoper Tel: 43-1-514442960
● Swan Lake: a choreography by Marius Petipa to music by Tchaikovsky, performed by the Wiener Staatsopernballet. Soloists include Brigitte Stadler and Vladimir Malakhov; 7.30pm; Nov 23

Listing compiled and supplied by ArtBase The International Arts Database, Amsterdam, The Netherlands. **Tel: 31 20 664 6441. E-mail: artbase@pi.net**

WORLD SERVICE

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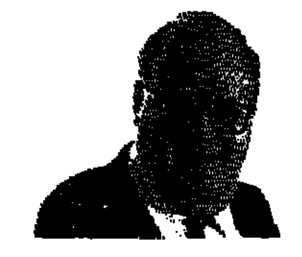
17.30
Financial Times Business Tonight

CNBC:

08.30
Squawk Box

10.00
European Money Wheel

18.00
Financial Times Business Tonight



Economic Viewpoint · Samuel Brittan

Radical welfare reform

Without drastic change, future chancellors will have to work very hard, and engage in cheese-paring, simply to prevent the tax burden rising

The most that Kenneth Clarke, the British chancellor, will be able to do with his "tax cuts" in next Tuesday's Budget is prevent the tax burden increasing, as it automatically does under an incompletely indexed system. His adjustments will be more than offset by public expenditure economies. Yet there are many fiscal puritans who doubt that the tax adjustments can be safely made.

The puritans rely on one of two arguments. One is that the Treasury could severely revise its fiscal projections for the coming years downwards – despite the recent revenue figures. The other is that the Treasury's previously published projections, showing budget deficits dwindling away to zero or less in the remainder of the century, may be questioned for their honesty or competence.

That this latter charge can even be contemplated strengthens the case for the independent fiscal office which Andrew Tyrie advocates in *The Prospects for Public Spending* (just published by the Social Market Foundation), together with other excellent suggestions.

If I do not share his optimism that the public spending share will decline further in the medium term, it is because of the very processes he diagnoses. The much-needed reduction of the state's role in many areas has increased the share of spending going to the "Big Three" welfare state activities: social security, health and education. The pressure of these activities on resources makes it difficult for chancellors to do more than offset "fiscal drag".

There are many reasons for current pressures. The stigma from claiming benefits has gone. New categories of need have been discovered, such as one-parent families. Economic growth which provided the means to satisfy these demands, has slowed. There has in addition been a widening of pay differentials.

In the next century there will be more old people. But a far more immediate pressure arises from the dramatic drop in the proportion of the population of working age actually in the labour force. There are many "discouraged" workers who have lost their jobs and who may live on payments such as invalidity benefits or occupational pensions or are supported by a spouse.

The urgent need is to try to find a little room for manoeuvre. Most of the cost-savings suggestions made by reformers involve a shift from tax finance to compulsory private insurance. Nevertheless compulsory deductions are different only in degree from tax payments; I should like to put forward in desperate brevity a few suggestions for reducing the area covered by welfare state spending to allow a more coherent and more humane approach in the many areas which remain. The measures suggested will build up over the years.

First, the retirement age should be raised in line with the increased expectation of life and the improvement in health. The government should propose an increase in the state pension age and also discourage employer pressure for early retirement.

Second, we need to recognise that grants for higher education are a transfer to the relatively better off. There is no reason why other taxpayers should pay.

But it is not worth trying to bully the banks into financing student loans. Instead a new corporation should raise funds under government guarantee. The loans should be serviced by a graduate levy, on top of income tax or social security contributions. The minority of graduates who earn very modest salaries would not then need to worry about carrying a lifetime load of debt.

Let us also recognise the scope for productivity improvements in education. The resources of modern film and video techniques should enable students to choose from among the half-dozen best lecturers on their subject, on lines pioneered by the UK Open University. This would release a lot of academic time to concentrate on the problems of individual pupils.

Third, the justification for state finance for medical care is that the treatment needs of people vary in ways which are not closely related to income and could not be taken care of by ordinary taxes and transfers. This justification is most convincing for "medical catastrophes". The majority of families have moderate medical needs. For them to receive tax-financed minor treatments or drugs without full payment is simply churning – that is, taking from one pocket and putting it into the other of the same person. So-called "free" medical treatment should therefore be provided mainly for major operations, rehabilitation after accidents, etc.

If, however a person believes he or she has unusually large needs for more modest treatments adding up over a year, that person should be able to get a refund after accumulating enough receipts, rather as small traders do with VAT.

Much the most important of these ideas is to raise the age of retirement. This would have enormous implications. It would obviously reduce the fiscal burden of caring for the old. Raising the normal German retirement age to 67 would eliminate the whole build-up of the contribution deficit in the next century.

The demonstration effect would extend very much further. Private pension schemes would be bound to be influenced towards a higher retirement age. Moreover both employers and older workers would have a different attitude if the reference point for retirement was 70. The ideal, however, would be to have no standard age and to leave it to individual decisions.

Unfortunately, there is a deep-rooted resistance to any attempts to increase retirement ages or to discourage employers from getting rid of older workers. Indeed all the pressures are in the opposite direction. In many European countries, governments afraid to fight unemployment by stimulative financial policy or liberalising labour markets, have instead appealed for a shorter working week.

Behind all these moves is the pernicious doctrine that may be called the work-sharing fallacy. This assumes there is a limited amount of work to be done and society is threatened by a shortage of jobs as technology advances.

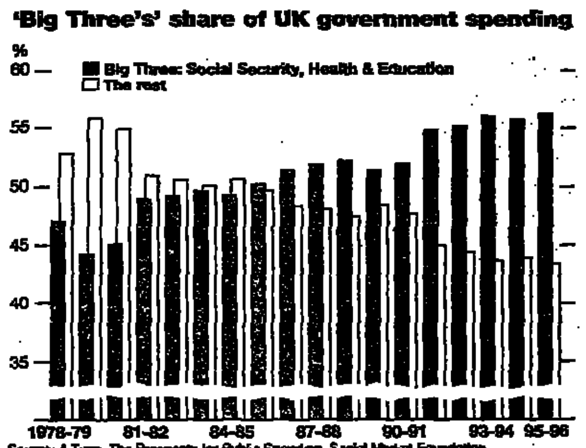
The root of the error is the failure to see that unemployment in an advanced industrial country is a reserve or margin. This margin could be reduced by better economic policies, but it is a margin nonetheless. Suppose that the total number of working hours per year is cut by 20 per cent. The size of the required labour surplus or margin will not be changed much. You will end up with roughly the same amount of unemployment, combined with national output, purchasing power and income all 20 per cent lower.

Those who will not accept an argument of principle should look at the historical record. This suggests that neither technological progress nor growth in the working population need lead to more unemployment. In the century from 1860 British output per head nearly trebled and the British labour force doubled. Was the result mass unemployment? No. It was a sixfold increase in total output.

After the second world war the German federal republic absorbed millions of refugees. In most of western Europe a large postwar rundown in the farm population was easily absorbed and millions of guest workers were drawn in from outside. The US has seen a comparable expansion of jobs.

The opposite European policy is an almost criminal throwing away of the contributions of many people who – with a little encouragement – would like paid work. There is nothing "social" about it.

'Big Three's' share of UK government spending



Source: A.Tyrie, The Prospects for Public Spending, Social Market Foundation

BOOK REVIEW · Philip Coggan

AGAINST THE GODS: THE REMARKABLE STORY OF RISK
By Peter L. Bernstein
John Wiley & Sons, 383 pages, $27.95

A winning way with odds and evens

We indulge in risk management more often than we think. Insuring our home, taking out a fixed-rate mortgage, or even leaving the house with an umbrella on a cloudy day, all involve a calculation of probabilities.

This well-written and thought-provoking book takes the reader through the history of how mankind has come to think about risk, starting with the first efforts to make sense of one of the species' most enduring passions – gambling.

As the author writes: "Without a command of probability theory and other instruments of risk management, engineers could never have designed the great bridges that span our widest rivers, homes would still be heated by fireplaces or parlour stoves, electric power utilities would not exist, polio would still be maiming children, no airplanes would fly and space travel would be just a dream."

Tackling the field of gambling was the relatively easy part. We know a coin has a one-in-two chance of landing heads and can make judgments accordingly. The difficulties arrive when we lack sufficient information to know the odds and when the actions of human beings affect the nature of the risks.

Frank Knight, a US economist writing after world war one, was the first to deal with the problems of decision-making under conditions of uncertainty. He pointed out that, while mathematical probabilities apply to events such as rolls of dice, in day-to-day life no occurrence is exactly the same as a previous, or future, event.

Similarly, economic theory rested for a long time on the concept of humans as rational individuals, acting in the light of perfect information. In fact, emotions play havoc with the decision-making process.

One experiment gave 10 students $30 each and offered them the chance of doing nothing or flipping a coin to win or lose $9. Seven opted to take the gamble. Another set of students was given no money and offered the chance of $30 for certain, or a coin flip which gave $39 on heads and $21 on tails. Only 43 per cent went for the flip, even though the range and prospect of the possible outcomes was the same.

This is described as the "house money" effect: people who have money in their pockets will choose the gamble; those who start with empty pockets will reject it.

The development of game theory has shown how seemingly irrational outcomes can arise from individuals making what, to them, seem like rational choices. The book provides a nice example from Mr Alan Blinder, vice-chairman of the Federal Reserve 1994-1996.

Mr Blinder looks at the relationship between the Fed and politicians; the Fed wants to control inflation and opts for economic contraction over expansion; the politicians want re-election and have the opposite priorities. The Fed wishes politicians would run a budget surplus; politicians hope the Fed will keep interest rates low. Neither side wants to do what the other side wants it to do; game theory suggests the result will be contractionary money policy and expansionary fiscal policy, exactly the framework of the early Reagan years.

The author, an economic consultant and founding editor of the Journal of Portfolio Management, pays plenty of attention to the world of finance. The recent case of Gibson Greetings, a card company which lost money in the options market, provides a neat proof of academic theory which predicts that people with losses will gamble in preference to accepting a sure loss.

At one point, Bankers Trust, which handled deals for Gibson Greetings, told the company its losses were $17.5m (£10.6m) but offered an alternative: its losses would be capped at $27.5m, but if all went well they would be reduced to $3m. Gibson opted for the alternative. All did not go well and its eventual losses were more than $20m.

Risk management has come a long way from the early efforts to analyse the best strategies for dice playing. However, sometimes the brightest minds forget that, while risk can be parcelled up in new forms and redistributed, it cannot be eliminated altogether.

Someone will have to pay if California is devastated by an earthquake or if share prices fall by 30 per cent. Elaborate schemes for portfolio insurance proved unworkable at the time of the 1987 crash and may have contributed to that bear market's severity.

Indeed, the author writes in his conclusion: "The science of risk management sometimes creates new risks even as it brings old risks under control. Our faith in risk management encourages us to take risks we would not otherwise take…

"Research reveals that seatbelts encourage drivers to drive more aggressively. Consequently, the number of accidents rises even though the seriousness of injury in any one accident declines."

In short, God always has a custard pie up his sleeve.

Against the Gods is available from FT Bookshop. Ring FreeCall 0500 418 419 (UK) or +44 131 964 1251 (outside the UK). Free p&p in UK.

LETTERS TO THE EDITOR

Number One Southwark Bridge, London SE1 9HL

We are keen to encourage letters from readers around the world. Letters may be faxed to +44 171-873 5938 (please set fax to 'fine'). e-mail: letters.editor@ft.com Published letters are also available on the FT web site, http://www.FT.com Translation may be available for letters written in the main international languages.

Biggest challenge facing WTO is how to manage itself

From Mr Harry L. Freeman.

Sir, While your leader "Agenda for the WTO" (November 12) covers virtually all of the bases, its order of mention, and hence order of priority, is subject to question. I believe the most challenging tasks before the World Trade Organisation are not pending or new issues, such as financial services and competition policy. Rather, the unprecedented and most difficult challenges come from the approaching near universality of membership.

As you suggest, we may have about 30 new member countries and easily pass the 150 mark. Managing the WTO presently with financial resources already too low is challenge enough. Enter 30 more countries and the total rises to roughly three times the members since the beginning of the Uruguay Round. How does the WTO cope with this kind of radical change? With the WTO, this means a lot of help for new members, mostly the very poor countries.

Adding to this challenge is the inevitable accession of China, a country not known for being an automatic follower of any consensus among the quad (US, EU, Canada, and Japan). The Russian Federation and Ukraine will not be easy tasks, either. The WTO power bases are in for significant shifts.

The objective is to maintain, if not enhance, the WTO as the centre of the world's multilateral trading system. Universal membership poses the challenge to existing members of trying to figure out how the WTO can best be run. And with more than 60 dispute settlement claims on file already, can 100 be far off?

Adding to this complexity is the growing number of ministries concerned with WTO issues. We have seen the past independence of members' agricultural ministries. We see it also in members' telecommunications and finance ministries. Competition policy brings in wholly new ministries, as would labour and environment issues.

In the past, General Agreement on Tariffs and Trade negotiations were largely a trade minister's show; no more in the future. How will this work? Are trade-offs possible?

Trade policy people like to discuss policy issues and avoid process issues. In my view, tremendously important process questions are coming to the fore. To paraphrase an old adage, "the devil is in the procedure and process, let alone the details". In a good process will be found good policy.

Harry L. Freeman,
4708 Dorset Avenue,
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Business not shown as supporting Emu

From Sir John Craven.

Sir, I refer to the article "Business support for monetary union grows" (November 11) commenting on the results of the poll commissioned by the Confederation of British Industry and the British Chambers of Commerce into opinions concerning Emu, the Single Market and the European Union.

There is a danger that the views of the individual recipients of the questionnaire distributed by Mori who happened to reply may be misrepresented as the collective view of a significant minority of British companies.

The survey was not a survey of corporate opinion but a survey of the opinions of the individuals in each of the companies polled who responded. I interact with a wide spectrum of chairmen, chief executives and finance directors of leading UK companies. I use every opportunity to inquire into the extent to which company boards have formally considered whether it is in the interests of their companies and their shareholders for sterling to be abolished in favour of a single European currency now or at some stage in the future.

I have yet to find a single company whose board has in fact formally considered these extremely complex issues and arrived at a considered corporate view, which is a sad commentary on a matter of such fundamental national importance. What in fact is represented in the results of the survey is a compendium of personal views of, albeit senior, individuals. The survey questionnaire requested the individual respondents to attempt to represent the views of the companies for which they work but in practice, since few if any companies have actually adopted a corporate view, this is asking the impossible.

I wrote to Mori suggesting that individual respondents be asked to certify in their responses that their views had been formally adopted by the boards of their companies and that they had been authorised to express them. I received no response.

Your treatment of the poll results conveys the clear impression that there was a 100 per cent response to the questionnaire. Thus "... the results showed 28 per cent of companies supporting joining Emu in 1999". It is vital to know what percentage the 1,610 replies represented of the questionnaires sent out; it is probably safe to say that those who failed to respond were overwhelmingly "don't knows".

Public opinion would be better informed were you to obtain from Mori this significant piece of information and publish it.

John Craven,
20 Cheyne Walk,
London SW3, UK

Ill-informed on Pakistan

From Mr S.A. Moid.

Sir, Mr Daniel Moylan (Letters, November 11) seems ill-informed to say that Benazir Bhutto is held "incommunicado" and that the constitutional obligation to proceed against her was "the presidential coup in Pakistan".

The president had to act under article 58 (2) B of the constitution to dismiss a government which was widely seen as harming the national interests by its incompetence, corruption and abuse of power.

Pakistanis overwhelmingly grew disillusioned with Benazir's economic mismanagement and human rights abuses. Moody's, the US government rating agency, lowered its rating for Pakistan below investment grade, attributing the downgrading to the country's worsening financial position. The International Monetary Fund also suspended its standby loan of $1.5bn in despair that the plunder of the nation's wealth over the past three years was greater than could ever be imagined.

During the last three years thousands of people in Pakistan have been killed in police encounters and police custody. The Benazir government described these extrajudicial killings as its way of controlling the law and order situation.

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Literary reply

From Mr Terry Bishop.

Sir, Following Harold Pinter's letter about trade with Cuba (November 18), I look forward to trade and industry secretary Ian Lang's review of *The Dumb Waiter*.

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COMMENT & ANALYSIS

FINANCIAL TIMES

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Thursday November 21 1996

The trouble with Belarus

It has been tempting for most of the outside world to ignore the republic of Belarus, since it became the least enthusiastic breakaway fragment of the former Soviet Union. It remains the least reformed and most impoverished European part of the former empire – its economy in a state of collapse and its politics bordering on farce. Yet that is why it matters.

Belarus still has nuclear weapons – 18 SS-25 nuclear missiles – although no one is quite sure whether it can use them. And it will sit right on the border of an enlarged Nato, assuming that includes Poland, and Russia. Mr Alexander Lukashenko, the unstable, unpredictable and uncompromising state president, is bitterly anti-western and hostile to Nato enlargement. There is no doubt that his rhetoric stokes similar feelings in Moscow, where both communists and nationalists support him.

The current constitutional crisis between Mr Lukashenko and his parliament and judiciary is causing heartache in Russia, and understandable anxiety in Poland, Ukraine and Lithuania, the other neighbouring states. The president is determined to press ahead with a referendum on Sunday to grant him sweeping powers to control parliament and the constitutional court. His prime minister has resigned and thousands of demonstrators are on the streets of Minsk to prevent the parliament from being disbanded.

Russia is the only country which can hope to mediate between Mr Lukashenko and his opponents, and head off the threat of greater civil disorder. Yet the Russian government is itself torn between its desire to reintegrate a part of the former USSR, and its fear at the financial costs of such a bankrupt ally. The ideal for Moscow would be a compliant but still independent neighbour, at least for the time being.

At the same time, Russia does not want others to intervene: any suggestion of a "regional solution" would be tantamount to interference in its internal affairs, Russian officials say. And they accuse neighbouring Ukraine of "pouring oil on the flames".

If Russia cannot calm the situation, it can hardly expect the rest of the region to stand idly by. But there is a lesson here too for Nato. Enlargement of that organisation may seem necessary and sensible when viewed from the Atlantic shores. There is a willingness to create a special role for Russia in the plan. But Belarus and Ukraine cannot simply be turned into a no-man's-land between the two, unloved and ignored. Otherwise they might erupt into a dangerous cause of contention.

Boutros at bay

Tuesday's 14-to-one vote in the Security Council for the re-election of Mr Boutros Boutros Ghali as UN secretary-general was an impressive moral victory for him and a severe tactical snub for the Clinton administration. It required all the gaucheness of Mrs Madeleine Albright, the US permanent representative, to line up all 14 other members against her. Their anger at the US's arrogant treatment of the UN finally overcame their sensitivity to the danger of widening the breach between the UN and its most powerful member state.

The administration argues that, with Congress still in the hands of the Republicans, it will be unable to pay off the US's debts to the UN, or of generating broader support for it, so long as Mr Boutros Ghali is at the helm.

That may well be true, but is in large part the administration's own fault. It used the secretary-general as scapegoat when its own troops got into trouble (in Somalia) and then blamed him for vetoing air strikes (in Bosnia) which would have put the troops of other member states in similar jeopardy. It has also failed to give him credit for a draconian cost-cutting exercise, carried out largely at the behest of the US, which has badly dented the morale of UN staff.

If Washington is now unable to justify supporting the UN under his leadership, that is because it chose six months ago to advertise its intention of ousting him. It did this to pre-empt a hypothetical Republican campaign issue that would never have swung many votes. It is said that this embarrassing episode has damaged Mrs Albright's chances of becoming the next US secretary of state. If not, it certainly should have.

That said, Mr Boutros Ghali should now gracefully withdraw. By maintaining his candidature any longer in the teeth of a US veto he can only harm the organisation he has done his best to serve. His African backers will no doubt settle sooner or later for a different African candidate, though the chances of the most obvious one (Mr Kofi Annan, under-secretary-general for peacekeeping) may be damaged by the fact that many US diplomats are known to admire him. That is how bad things have got.

It should in any case be clear to Mr Clinton and his team that they are now heavily overdrawn at the UN not only financially but in terms of goodwill even among their allies. However and whenever they secure Mr Boutros Ghali's head, they must be prepared to pay for it with a far more determined effort to explain to the American public that the UN is an irreplaceable tool of foreign policy.

Flexible pay

Abolition of tax relief on profit-related pay would be a tempting candidate to finance pre-election cuts in headline income tax rates. The cost of the schemes has been rising fast, partly because of their popularity for tax avoidance.

When Lord Lawson introduced the tax relief in his 1987 Budget, he argued that it would be another contribution to freeing up labour markets and pricing people back into jobs – along with trade union legislation, abolition of wages councils and the encouragement of decentralised pay bargaining.

PRP was intended to allow remuneration to fall when profits were depressed as well as to rise in good times. It would thus act like a shock absorber, automatically adjusting wages to profits, and so reduce the pressure on managements to cut costs by firing employees during a recession.

Another benefit of PRP, in common with bonuses, share options and other incentive schemes, is to encourage employees to improve the profitability of their companies. A survey by the Wider Share Ownership Council found that 45 per cent of employers thought profit-sharing increased productivity.

But these arguments about flexibility and motivation, persuasive as they may be, are not enough to justify continued tax relief. Lord Lawson argued in 1987 that "there is considerable inertia to overcome, so it might make sense to offer some temporary measure of tax relief". US surveys found that 63 per cent of employees prefer to be paid in wages or salaries, and only 12 per cent favour company-wide incentive schemes. Employees seem to prefer predictable levels of pay. But in the UK, much resistance has been overcome. The number in PRP schemes has risen in the past five years from 400,000 to 3.7m – 15 per cent of the workforce.

The case for tax relief is therefore much weaker. It may still be in the national interest to encourage such schemes. But in practice many are doing little to enhance labour-market flexibility. Inland Revenue research concluded that some companies manipulated the profits of subsidiaries "to produce reasonably stable levels of PRP". The main purpose is for individuals to avoid up to £1,600 of income tax. For this reason, PRP schemes have been spreading to occupations not traditionally associated with profits, such as universities and charities.

Linking pay and profits directly can be a good way of motivating employees and increasing pay flexibility. But since PRP is often used for tax avoidance, with little change in real economic behaviour, the £1.5bn cost of relief – more than a third of total public spending on employment and training – could be employed more usefully elsewhere.

Windfall's big chill

The centrepiece of Labour's economic strategy is attracting criticism at home and abroad, writes David Wighton

Labour's proposed windfall tax on the privatised utilities, the centrepiece of the party's economic strategy, is under threat. The companies have pledged to challenge the tax in the UK and European courts; the Clinton administration is being lobbied to bring pressure on Labour to drop the idea; and the UK government has mounted a campaign to undermine it.

Yet the Labour leadership shows no sign of wavering.

"It is hard to overstate how important the windfall tax is for us," admits a senior official. "It is the one politically acceptable source of new revenue we have to fund our modest spending programme. Without it, we would have very little to offer."

Far from backing off on the windfall tax, Labour is actually becoming bolder on it.

When it was first floated in 1992, the tax was presented as a means of skimming off the cream from the "fat cats" of the privatised electricity and water companies. A series of newspaper stories had highlighted large increases in the remuneration packages of the utility company directors which included valuable share options.

Labour then estimated the proceeds from such a tax on electricity and water companies at between £500m and £2.5bn. But senior party figures now talk of raising between £5bn and £10bn from all the privatised utilities, including those not caught up in the original "fat cat" controversy.

There is an element of gamesmanship in the talk of £10bn, however, since the tax is earmarked solely for two programmes to combat youth and long-term unemployment which Labour privately costs at between £3bn and £4bn.

The widening of the target to all privatised utilities was prompted largely by legal advice. Labour says it was told by its lawyers that, while there should be *no fundamental* legal problems with the proposed tax, it must take great care not to discriminate against particular companies.

Mrs Elizabeth McKnight, a partner at Herbert Smith, the City lawyers, says the companies' main hope for legal challenge would be to argue that the tax contravened European law under the Treaty of Rome. "The best chance would be to claim that the tax is discriminatory or distorts competition in some way."

But most tax lawyers agree that, as long as Labour is careful to avoid such traps, the chances of a challenge succeeding, or even delaying implementation, are slim.

In the light of the legal advice, Mr Gordon Brown, the shadow chancellor, has since stuck to the formulation that it would apply, "in principle" to the "excess profits" of all the privatised utilities.

One simple measure of "excess profits" would be the total returns to shareholders generated since privatisation. A recent analysis by the Financial Times showed this formula would mean the tax bill for British Telecommunications could range from zero to £1.5bn – depending on the date at which the returns were calculated.

However, Labour's other public statements suggest the calculation would be more complex still. The party says the tax would be designed to reflect three factors:

- The underpricing of the companies on flotation.
- Excessively lax regulation.
- The extent to which the companies have exploited their "monopoly market position" to overcharge customers.

This final element has been interpreted as indicating that companies such as BT which now operate in highly competitive markets, would be hit less severely, if at all. Mr Tony Blair, the Labour leader, is particularly concerned not to penalise BT, which is co-operating with Labour plans to link schools to the "information superhighway".

Labour's justification for the tax is simple: the companies have generated excess returns to shareholders because of the way they were sold and regulated. But most independent observers say a utility tax is the wrong way to recoup any windfall gains – a view that some Labour frontbenchers share in private.

There is no suggestion that the seller or the buyers knew that they were buying underpriced assets when the utilities were privatised. The seller of a tatty old oil painting in a car boot sale has no claim on the buyer when it turns out to be an old master.

Moreover, the present owners of the utilities are unlikely to be those who benefited from the original gains. Yet unless all of the tax is passed on to customers, at least some of the burden would fall on those shareholders – largely pension funds and private investors.

Opponents of the windfall tax believe it would be difficult to persuade the public to go to the barricades to defend the interests of shareholders. So they have focused on the tax's impact on prices, investment and jobs.

Labour claims utility prices would not be affected, a position supported by Mr Stephen Littlechild, the electricity regulator. However, Mr Ian Byatt, the water regulator, has suggested prices could rise.

Mr Andrew Dilnot, director of the Institute for Fiscal Studies, the independent think-tank, says the impact on prices would depend largely on whether the financial markets believe the windfall tax is a one-off. If there is seen to be a chance of a repeat, investors will demand a higher return from the utilities to offset the risk. Since the regulators must allow the companies to make a reasonable margin over their cost of capital, prices would rise.

Labour insiders concede there would probably be some marginal adverse impact on investment and jobs. But it is hard for ministers to attack the principle of a windfall tax, since the Conservative government imposed such a levy on the banks in 1981. When ministers claim a windfall tax on the utilities is different, Labour replies "you should know".

Mr Kenneth Clarke, the chancellor, disclosed in July that he had looked at imposing a windfall tax "in some detail" and concluded it was "a complete non-runner". This may explain why the government has only recently begun to attack the proposal.

The companies have also found it hard to oppose the threat of a windfall tax. In part, this reflects the success of Labour's campaign against the "fat cat" directors which has made them chary of putting their heads above the parapet.

Says one utility chief executive: "If I start attacking the tax too hard Labour will only turn on me and I will have tabloid journalists camped out on my lawn again. All my share options have gone, so the one person the tax won't affect is me."

However, the US energy groups which have committed almost £6bn to buying UK regional electricity companies may be less chary. They could face a tax bill of more than £500m and could argue they did not benefit from the earlier windfall.

The Americans have started lobbying the Clinton administration to bring pressure on Mr Blair to drop the idea.

Opponents hope to force Labour into another embarrassing policy U-turn, and remove the only additional source of income that is allowing it to promise higher public spending. But Labour insiders insist they will resist all attempts to undermine the tax, simply because it would jeopardise the party's only promise on extra public spending.

Marked down by the market

In theory, valuing the UK utilities should be easy: with few of the businesses facing significant competition, revenues are predictable. Yet in practice, their share prices have often proved volatile.

They have also tended to bear little relation to attempts to value the companies on a fundamental basis. For example, UBS believes the theoretical worth of the National Grid, which runs the national electricity network, is about £4.1bn. But the stock market values the company at £3.2bn.

In large part, this reflects fears over what a Labour government would do, and in particular the impact of the planned windfall tax. "Without details from Labour, the market fears the worst. This is an important contributing factor to the scale of the gap," says Mr Iain Turner at UBS.

The impact of such fears has varied between sectors. Water shares are thought by most analysts to be over-compensating most for political risks. They are now yielding a prospective return of 7.2 per cent on average. "It has to be a pretty broad judgment, but the sector looks fundamentally undervalued at these levels," says Mr Bill Dale at SBC Warburg.

Shares in the regional electricity companies, by contrast, have been buoyed by bid speculation. Prices paid by bidders in some cases seem well above the companies' likely fundamental valuation.

The impact on British Gas and British Telecommunications is harder to discern, because there are many other factors affecting their value. But most analysts believe their share prices would be higher without the threat of a windfall tax.

Even BAA, which runs large UK airports, has been affected, argues Mr Richard Hannah at UBS. "Historically, BAA used to stand on a 25-30 per cent premium to the market; the premium has been reduced to very little in the last 18 months."

John Kingman

OBSERVER

Big pots get roasting

■ In these times of executive pay hikes, juicy share options and outrageous severance packages, it's nice to hear of business people putting others first. Take the group of Canadian financiers who call themselves the Roasters Foundation. They annually persuade a prominent executive to be "roasted" by friends and colleagues in an evening of spoof and satire. Participants are expected then to dig out their wallets.

The Roasters' victim has just been Bob Smith, the crusty president of Barrick Gold, the Toronto-based mining group. Smith faced 450 securities dealers, lawyers and mining types who ribbed him about his erratic golf game, and his fondness for steak and cigarettes. But the evening raised a cool C$2.6m, with Peter Munk, Smith's boss, chipping in C$100,000. Most will go on a new chair of mining at the University of Toronto, the rest to children's charities.

Too damn bright

■ The thought of one of the world's richest men piping up with a tricky question at the AGM would scare most company directors. That prospect is on the cards for John Padfield, chief executive of Chiroscience, a small UK biotechnology company.

Thanks to his hobby of venture capitalism, Bill Gates, the Microsoft chief, is a 14 per cent shareholder in Darwin Molecular, the Seattle biotech company which Chiroscience has just agreed to buy. The terms of the deal leave Gates' estimated net worth $18bn with roughly 3 per cent of Chiroscience, which has a market capitalisation of £300m.

Executives at Darwin are naturally quick to praise their wealthy benefactor. One did, however, let slip a clue about what the great man is like to work with: "He may be in software, but he's very interested in biotechnology. And he's so intelligent you can't tell whether he knows what he's talking about."

Hard grafter

■ Pakistan's determination to rid itself of graft has shifted up a notch, with the appointment of an experienced local hack as adviser to the prime minister on political affairs and accountability. Najam Sethi, editor of the weekly The Friday Times, and a correspondent for *The Economist* magazine, has also been endowed with the lofty rank of cabinet minister.

This might well be a case of due reward – Sethi's publication attacked the administration of Benazir Bhutto whenever possible. In retaliation, the authorities had it removed from flights of the state-run Pakistan International Airlines.

But Sethi's position is not entirely clear-cut. As editor of The Friday Times he called for a caretaker government, charged with cleansing the Augean stables, a task requiring no less than two years, he suggested. As politician, Sethi has joined one which has promised to hold elections and leave office in less than three months.

Maybe he'll just get on with the job very quickly.

Stone age sales

■ Millions of people annually visit the Tower of London, one of the UK's star tourist attractions. If Alan Percy has his way, they'll soon be taking bits home – he's ready to sell them a small chunk at £4.95 a throw and claims *to* have enough of the ancient monument to provide 4m pieces.

How did he come by four tons of the Tower? In 1984 Percy assisted his contractor father doing work there, and spotted builders knocking holes in the historic Salt and Lanthorn towers. The stone was being piled into skips for chucking away. Percy sniffed a commercial opportunity, though he was initially prevented from carting the stuff off. He says he eventually obtained signed permission from the Tower's bosses to take it away. But they later asked for it back, so Percy hid it until the heat cooled off.

Now he's advertising the stone on the Internet, complete with certification from a geologist that its date and type is that to be found at the Tower. With a potential £19.8m total revenue, Percy can probably tackle all the legal action the Tower might care to stone him with.

Pulchritudinous

■ The police chief and top dog at the high court in Karnataka, India, have been ordered to attend the Miss World beauty pageant being held in Bangalore, state capital of Karnataka, in India, on Saturday. The divisional bench instructed them to attend to ensure the upholding of its ban on "any indecent exposure of the body amounting to obscenity or nudity". To add insult to injury, the court has told officials and ministers attending the contest that they should pay for their *own tickets*. All in the name of hearing Miss Ruritania's aspirations for a better world . . .

Financial Times

100 years ago

The Crown Prince's Visit
The ancient port of Bari was on its best behaviour last month when the Crown Prince of Naples with his fair consort, Princess Helen of Montenegro, paid a passing call. From an exchange we learn that the City Fathers assembled in solemn conclave to discuss the weighty question of the manner in which the Royal guests should be received. Their deliberations resulted in the following municipal edict:- "Citizens of Bari, it is your duty to clean the streets of all unseemly noises. Ragged and tattered washing linen must be taken away from the windows; little children must no longer run naked in the street; goats, cows, hens and drunken men must be kept at a proper distance; no dust bins may, for three weeks, be emptied into the streets; licensed coachmen are forbidden to wear ragged livery, and are advised to borrow disused police uniforms."

50 years ago

U.S. Coal Miners Idle
Nearly one-third of the United States' 400,000 soft-coal miners were already idle yesterday as to-night's deadline approached for the threatened nationwide strike. Estimates put the figure as high as 125,000.

FINANCIAL TIMES
Thursday November 21 1996

Reforms give US banks access to wider markets

By John Authers in New York

US banks will be given substantial extra powers to underwrite securities and sell insurance under regulations announced yesterday by a branch of the US treasury.

Mr Eugene Ludwig, the comptroller of the currency who regulates about a third of the nation's banks, said that under the new rules banks would be allowed, on a case by case basis, to set up arm's-length operating subsidiaries to move into new activities.

This represents a significant breakthrough in the long-running campaign by US banks to end the strict controls on their business enshrined in the Glass-Steagall Act. This barred commercial banks from underwriting securities or selling insurance.

Bankers now believe they can gain extra powers without repealing Glass-Steagall. The American Bankers Association described the latest move as "ground-breaking".

Mr Ludwig said Glass-Steagall reform would be "good public policy", but added that the narrow focus by policy-makers and industry lobbyists had "failed to address more compelling public policy questions".

His move received a qualified welcome from Mr James Leach, chairman of the House banking committee, who said it was a "step towards bank modernisation", but Mr Alfonse d'Amato, his Senate counterpart, said he was "deeply concerned" and claimed the rules would "subject federally insured banks to excessive risks".

The comptroller of the currency regulates about 3,000 "national" banks out of a US total of about 9,600. The remaining banks are regulated by the Federal Reserve.

The present moves follow an initiative by the Federal Reserve at the end of July to ease commercial banks' expansion into the US securities markets.

The proposals make it easier for banks to expand their so-called "Section 20" subsidiaries – the separate units through which they are allowed into the securities business.

Under Mr Ludwig's regulations, banks will be able to set up subsidiaries to sell insurance or underwrite securities provided they meet several strict criteria. These include:

- At least a third of the subsidiary's directors must not be directors of the parent banks.
- No more than 10 per cent of the bank's capital can be lent to the subsidiary.
- The bank's equity investment in the subsidiary must be deducted from its capital.
- The subsidiaries must have "physically separate and distinct" operations and a different name from the bank.

Sports companies to set rules on child labour

By Patrick Harverson in London

International sports goods companies are set to agree a code of practice aimed at eradicating the exploitation of child labour by manufacturers.

Executives from Nike and Reebok of the US, Adidas of Germany, Pentland of the UK and other members of the World Federation of Sporting Goods Industry meet in London today to respond to growing criticism from child welfare pressure groups and trade union organisations.

A recent report by the International Labour Organisation, a United Nations agency, estimated that 250m children under 14 were working in developing countries. The sports goods industry – with sales of about $100bn a year – has come under fire recently over the employment of children in manufacturing.

In September, Reebok called on its arch-rival Nike to introduce joint monitoring of manufacturing conditions in Asia after reports that children were employed to make top-brand sports shoes.

The same month Fifa, soccer's world governing body, announced plans for a code of conduct for manufacturers after it emerged that souvenir balls for the Euro '96 championship had been produced by child workers in Pakistan.

The Fifa code, to be presented at today's meeting, will set labour standards for suppliers of Fifa-approved balls, covering the minimum working age, hours and conditions, and union representation.

Although the sporting goods federation is expected to draw up its code of practice along similar lines, pressure groups fear some companies may try to water the proposals down.

"Most of the big companies are anti the Fifa proposal and will fight to make it less specific," said Ms Bethan Brooks of Christian Aid, the charity that has campaigned against the exploitation of workers in the footwear and clothing industries.

Pressure groups are also concerned that any code of practice may not be rigorously policed. Ms Brooks said: "Nike and Reebok already have codes of conduct but they monitor themselves. It's not good enough. We are calling for independent monitoring."

However, Mr Stephen Rubin, chairman of Pentland and federation president, said on Tuesday that the industry planned to set up its own monitoring body to enforce the code. Any companies that broke the code could be expelled from the federation or even have their products banned at the Olympic Games.

THE LEX COLUMN

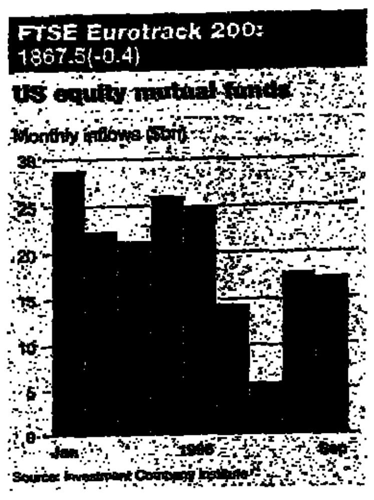
Tinseltown tear-jerker

What is Sony up to in Hollywood? The Japanese electronics giant, which has been humiliated by a string of expensive film flops, now says it eventually intends to float a stake in its music and film division. The idea, apparently, is to raise cash. Executives also say Sony is interested in finding a strategic partner for the division, which includes Columbia Pictures and CBS Records.

None of this makes obvious sense. Why, for example, does Sony's entertainment business need cash? Only if it plans to splash out on another big acquisition. Now, in an ideal world, it might be a good idea to link Sony's "content" operations with a television distribution business like NBC or the new Westinghouse. After all, rivals like Disney, News Corp and Time Warner have both content and distribution. But, having lost billions of dollars in Hollywood, does Sony really want to buy another business it knows nothing about?

Hence, perhaps, the idea of a partnership. That might offer the chance of creating a more powerful industrial combination, while bringing in outside management expertise. Fair enough, except that a fully-fledged merger between Sony's entertainment business and a US TV network is not allowed under US law because Sony is Japanese. At best, some half-way house could be cobbled together. Sony would not like the loss of face; but the most sensible option would be to follow Matsushita, which had a similar disaster with MCA, and sell out.

FTSE Eurotrack 200: 1867.5 (-0.4)



US Mutual Funds

The vertiginous rally in the US stock market continues unabated. In the 10 trading days since President Bill Clinton was re-elected, the Dow Jones Industrial Average has risen by around 400 points or 6 per cent. Some sceptics have thrown in the towel. Others are wondering where the cracks will appear. Equity mutual funds – the savings vehicles, favoured by US households, which have enjoyed spectacular growth this year – are near the top of any list of worries. It is a position they do not deserve; their likely role in a market crash is overstated, as their role in the market's rally has been.

Flows into these funds have been impressive. The $192bn in the first 10 months of 1996 is already well above the record $130bn in 1993. But the figures are hardly evidence of a casino mentality. First, monthly inflows have fallen to around half the level of the first half of the year. Second, the average monthly inflow of 1.4 per cent of equity mutual funds' total net assets is well below the 1.7 per cent average in 1993. Third, not all of the money represents fresh demand – some is a redirection of direct holdings into pooled investments.

History also suggests US households can keep their nerve. There is no example over the past 50 years of sustained, panic selling by stock-fund owners when markets have crashed. They will hurt with the rest when the market turns, but they are unlikely to lead the charge.

Granada

The dust is settling on Granada's £3.9bn hostile takeover of Forte. While the share price has judged it a raging success, the numbers should temper enthusiasm. Granada has done a great job imposing efficient management systems on a lazy Forte and its £100m target for cost savings next year looks conservative. Nonetheless, forecast pre-tax returns on Granada's investment in the Forte businesses in the year to September 1997 – counting the £1.7bn disposal programme as already completed – will probably be below 10 per cent, which is hardly impressive. There will be spin-off benefits for Granada's existing businesses. But Forte still does not look like a steal for Granada's shareholders.

At least they have plenty to look forward to, with two more years of operational improvements at Forte and continued growth from media and contract catering. Moreover Granada's stake in a buoyant BSkyB is now worth almost 100p a share, which will ultimately be reinvested in another deal.

However, the next big deal will probably be to split the group into pure hotel/restaurant and media companies. This would smack of returning Forte to the stock market, but it would be a much more efficient and attractively structured Forte. One sticking point for Granada would be what to do with its dull but highly cash generative television rental business – but there should be buyers. And if it creates two focused high growth businesses, that should do wonders for Granada shares.

Cable & Wireless

Mr Dick Brown, Cable and Wireless's new chief executive, has been astonishingly good for the share price. A couple of quick deals have given the impression of a group on the move. The effect is particularly pronounced, when one realises that Hongkong Telecom, which provides 70 per cent of C&W's profits, has seen its share price slide over the same period.

C&W's share price is racing ahead of events. Mr Brown's deals in the UK and Germany are shrewd enough, but they do not kick the group into a different league. And there is little prospect of a really big deal to do that trick. True, Mr Brown says he is talking to potential partners. But this year's abortive talks with British Telecommunications exposed the regulatory quagmire any full takeover would run into. While some alliance may be stitched together, it is unlikely to involve a fat premium for C&W shareholders. That makes C&W's outperformance versus HK Telecom since the BT talks all the more curious as, if they had succeeded, there would have been a premium for C&W but not HK Telecom.

Looked at over a longer timescale, the outperformance is even more dramatic – 50 per cent since end-1994. As a result C&W, which used to trade at an embarrassingly large discount to the sum of its parts, now trades on a discount of little more than 10 per cent. Of course, C&W's shares could still motor ahead, but this will be hard unless HK Telecom's also pick up. And if investors expect that, they should buy HK Telecom.

Additional Lex comment on UK generators, Page 23

Dispute on Cuba trade

Continued from Page 1

whether "any action" is constrained by fair trade rules. The US Congress would probably regard that as an affront to national sovereignty.

Canada and Mexico, which have taken the dispute to arbitration under the North American Free Trade Agreement, said they wished to participate in the WTO panel proceedings as interested third parties. Once chosen, the panel has about six months to report.

In July Mr Clinton waived the most controversial Helms-Burton provisions for six months, allowing US citizens and companies to sue foreign companies "trafficking" in confiscated Cuban assets. He should do so again in January.

State department officials are thought to be discussing with their European counterparts what further actions might make a multi-year waiver possible.

Deal blocked

Continued from Page 1

said the group had regarded the transaction as a national matter and was advised that the risk of it being blocked was minimal.

The Commission's decision was "very, very exceptional", he said.

Mr Honkala said he was confident Kesko would claw back its outlay, although analysts suggested it was likely to get less than it paid.

The company paid FM2bn for Tuko as well as assuming FM3bn in liabilities. Kesko shares fell more than 4 per cent to FM61.80 yesterday.

Air France orders 20 long-haul jets as profits soar

By David Owen in Paris

Air France yesterday gave a double reminder of the rapid improvement in its once desperate financial circumstances by announcing sharply higher first-half profits and firm orders for 20 long-haul jets.

The state-controlled airline split its order – worth at least $2.6bn at manufacturers' list prices – equally between Airbus of Europe and Boeing of the US, ordering 10 each of the 252-seat Airbus A340-300Es and 288-seat Boeing 777-200 IGWs.

Five of the Airbuses are, in effect, confirmation of an earlier order, while the Boeing order replaces one for 15 Boeing 737s and 767s dating from the spring of 1995. The company said it had also taken options for five Airbus A340s and 10 Boeing 777s.

The order caused controversy in France, with the company coming under pressure from ministers to take into account the broader interests of the French economy when deciding which aircraft to buy – since France is a partner in Airbus Industrie.

Air France said its earlier commitment to Boeing meant it would have incurred penalties of several hundred million dollars if it had not ordered the US aircraft – and the 777 offered more business-class seats than Airbus, and flies further without stopovers.

The company said its estimated net profit for the six months to September 30 rose to FFr802m ($158m), the best half-year result since 1989. This compared with a loss of FFr335m in the corresponding period of 1995. Definitive figures are to be published next month. Operating profit was up nearly 30 per cent to FFr1.1bn on turnover ahead 5 per cent to FFr21.3bn. Passenger traffic advanced by 14.8 per cent; freight by 6.7 per cent.

The improvement was in spite of an increase in fuel costs of about FFr500m, a burden that was set to get heavier in the second half.

In the year to March 31 1996, the group recorded a net loss of nearly FFr3bn after provisions of FFr2bn for voluntary severances and other labour measures. In a further encouraging move, the company cut its net debt from FFr19.2bn to FFr12.9bn. The figures appeared to mark another step towards privatisation.

The company faces a fierce battle for market share in its home market with British Airways, which recently won its battle to take over Air Liberté, an independent French carrier.

American Airlines is expected to announce today it will buy more than 100 Boeing aircraft worth about $6bn, provided its pilots agree a new six-year contract. The pilots' union leadership met yesterday to decide whether to recommend the contract to members. The deal would put Boeing ahead of Airbus Industrie, its European rival, for orders won this year. Report, Page 4.

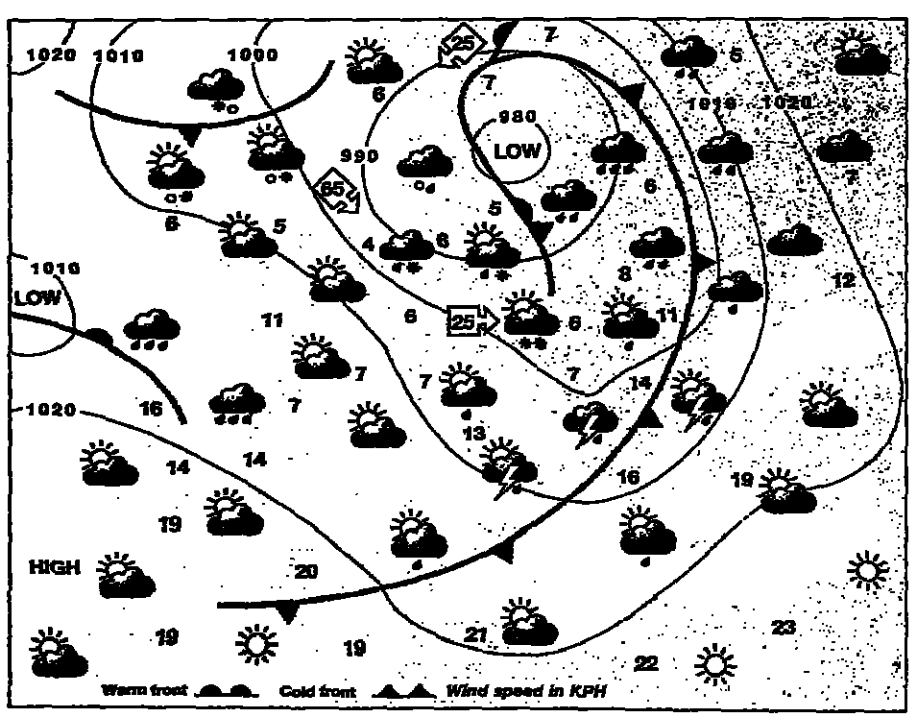
FT WEATHER GUIDE

Europe today

Most areas will continue to have cloud and rain. The southern Adriatic, especially the Dalmatian and Albanese coasts, will have thunderstorms and mild temperatures ranging from 20C to 25C. Western Europe will remain very cool with temperatures of 10C in southern France. Western Europe will have frequent wintry showers. The British Isles will have some snow showers. Some snow will fall in the Alps on high ground, although it will not be as heavy as in recent days.

Five-day forecast

Western Europe will have wintry showers. On Friday, southern Europe will have large amounts of rain. Heavy snow is expected on high ground.



Situation at 12 GMT. Temperatures maximum for day. Forecasts by Meteo Consult of the Netherlands

TODAY'S TEMPERATURES

	Maximum Celsius										
		Beijing	sun 8	Caracas	fair 30	Faro	fair 19	Madrid	cloudy 10	Rangoon	fair 33
		Belfast	shower 4	Cardiff	shower 5	Frankfurt	shower 4	Majorca	fair 18	Reykjavik	snow -8
Abu Dhabi	sun 26	Belgrade	shower 12	Casablanca	sun 19	Geneva	cloudy 6	Malta	cloudy 20	Rio	rain 25
Accra	shower 30	Berlin	shower 6	Chicago	cloudy 1	Gibraltar	sun 19	Manchester	shower 3	Rome	shower 15
Algiers	fair 20	Bermuda	shower 24	Cologne	shower 5	Glasgow	sleet 1	Manila	thund 29	S. Frsco	cloudy 18
Amsterdam	shower 6	Bogota	shower 20	Dakar	fair 27	Hamburg	shower 6	Melbourne	shower 14	Seoul	fair 7
Athens	thund 19	Bombay	sun 33	Dallas	fair 24	Helsinki	sleet 8	Mexico City	fair 23	Singapore	thund 31
Atlanta	fair 22	Brussels	shower 4	Delhi	sun 26	Hong Kong	fair 23	Miami	fair 28	Stockholm	rain 8
B. Aires	fair 29	Budapest	shower 8	Dubai	sun 28	Honolulu	fair 27	Milan	fair 11	Strasbourg	shower 7
B.ham	shower 3	C.hagen	shower 7	Dublin	shower 4	Istanbul	fair 18	Montreal	fair -1	Sydney	shower 18
Bangkok	fair 31	Cairo	sun 24	Dubrovnik	thund 12	Jakarta	shower 31	Moscow	drzzl 5	Tangier	sun 19
Barcelona	fair 15	Cape Town	shower 18	Edinburgh	sleet 2	Jersey	shower 9	Munich	shower 6	Tel Aviv	fair 25
						Karachi	sun 29	Nairobi	shower 24	Tokyo	fair 18
						Kuwait	shower 28	Naples	shower 13	Toronto	fair 3
						L. Angeles	rain 19	Nassau	fair 28	Vancouver	snow 0
						Las Palmas	sun 23	New York	fair 8	Venice	cloudy 13
						Lima	cloudy 23	Nice	sun 13	Vienna	shower 8
						Lisbon	cloudy 18	Nicosia	fair 24	Warsaw	rain 8
						London	fair 7	Oslo	sleet 3	Washington	cloudy 10
						Lux.bourg	sleet 1	Paris	shower 6	Wellington	rain 16
						Lyon	cloudy 6	Perth	sun 29	Winnipeg	snow -6
						Madeira	shower 21	Prague	sleet 5	Zurich	sleet 4

FINANCIAL TIMES
COMPANIES & MARKETS
Thursday November 21 1996

IN BRIEF

Nestlé suffers summer setback

Nestlé, the world's biggest food company, said poor summer weather in Europe prompted a second-half slowdown in its sales growth. Despite a 12 per cent sales rise in October, the summer setback in mineral water and ice cream left group sales for the first 10 months up only 5.7 per cent at SFr48.3bn ($38bn). Page 16

Merck forecasts sharp improvement
Merck, the German pharmaceuticals and speciality chemicals group, forecast a sharply improved performance for the full year, after lifting net profits 25 per cent to DM341m ($227m) in the first nine months. Page 16

Axa posts consolidated sales increase
Axa, the French insurer, said it posted consolidated sales of FFr119.98bn ($23.66bn) in the first nine months of 1996, up 22.7 per cent from FFr97.798bn. The group said its life assurance sales in the first nine months of 1996 had risen 38.5 per cent to FFr64.434bn. Page 18

Chubb buys Hardie Group for A$220m
Chubb Security, the electronic alarms and locks group, yesterday agreed to buy the fire protection and building security businesses of James Hardie, the Australian building materials group, for A$220m ($171.6m) cash. Page 23

Gates cautious on computer growth
Bill Gates, the billionaire head of Microsoft, was cautious in predicting growth in the computer industry. With an estimated 70m personal computers sold this year, Mr Gates, speaking to over 10,000 industry representatives at the Comdex trade show in Las Vegas, said it would be difficult for the sector to maintain its historical 15-17 per cent annual growth rate.

Tremors in European bond markets
Signs of an upturn in the German economy and news of a large US trade deficit sent tremors through European bond markets. The London International Financial Futures Exchange's December bund futures contract fell to settle at 100.88, down from 101.19 the previous day, ending a succession of solid rises. Page 24

Companies in this issue

Market Statistics http://www.FT.com

Chief price changes yesterday

FRANKFURT (DM)			
Rises			
MAN Pref	307.5	+	4.9
Volkswagen Pfd	485.5	+	7.25
Wella	827	+	17
Falls			
Kali & Salz	152.1	–	4.4
Preussag	359.0	–	14.5
VEW	495	–	14
NEW YORK ($)			
Rises			
Rite Aid	39¾	+	2¼
UAL	68¾	+	3½
US Filter	33⅛	+	2¾
Falls			
Intl Tech	2⅜	–	7⅛
Natl Power	25⅝	–	1⅛
Revlon	31⅞	–	2⅝
LONDON (Pence)			
Rises			
Carry Cassels	72	+	8
Filtronic Comtek	282½	+	35
Green (E)	48½	+	8
Porvair	232½	+	25
Roxboro	159½	+	21
Falls			
Lawrain & Bcht	107	–	11½
TORONTO (C$)			
Rises			
Cortlandt	9.35	+	1.75
Edper Grp Rec	24.55	+	5.55
Philip Envr	17.1	+	1.4
Falls			
Ashanti	15	–	1
Imax Pharm	9	–	1
United Cdn Sbr	16.0	–	1.5

PARIS (FFr)			
Rises			
Club Med	521.5	+	12.8
Elf Aquitn Cis	390.0	+	11.2
Sulbert	914	+	31
Pechiney A	199.5	+	7.5
Skis Rossignol	134.0	+	4.1
Worms Cis	279	+	6
TOKYO (Yen)			
Rises			
Green Cross	610	+	25
Hoya Corp	4200	+	170
M'bishi Paper	578	+	23
Rohm	6750	+	240
Falls			
Fuji Fire & Mar	600	–	20
KDD	8260	–	380
HONG KONG (HK$)			
Rises			
First Pacific	11.2	+	0.7
HK & China Gas	15.05	+	0.45
Shaw Bros	9.25	+	0.25
Sun Hung Kai	2.05	+	0.13
TVB	28.3	+	0.8
Falls			
Wheelock	21.00	–	0.55
BANGKOK (Baht)			
Rises			
Thai Glass	81	+	5
Falls			
OCC	87	–	4
Ond Hldg	22.75	–	2.50
Sub Sri Thai	40.00	–	0.25
Thai Srestrhk	20.5	–	2.0
Thai Tasstom	45	–	5

New York and Toronto prices at 12:30.

Granada moves in direction of demerger

Sale of TV and video rental business could come next year

By Scheherazade Daneshkhu and Raymond Snoddy

The Granada group is likely to demerge its television and its hotel and catering interests in a restructuring that could come as early as the middle of next year.

No final decisions have been taken but there is a clear appreciation in the group that creating two separate companies with "pure" assets could enhance shareholder value. Within Granada, a demerger is now considered more likely than not.

If a decision to demerge is taken, the move will happen quickly to minimise uncertainty among staff.

Indications of Granada's likely future corporate strategy came as the company announced a 37 per cent increase in pre-tax profits to £480m ($792m) for the year to the end of September, a figure which excludes £75.6m in exceptional charges.

Demerger would almost certainly mean the sale of Granada's television and video rental business, which would not fit easily into either entity – the hotels, restaurants and catering company or the media group.

Increasingly, the performance of the rental business – however good it is within its sector – contrasts with the rate of profits growth in Granada's other businesses.

Rental profits grew by only 3 per cent to £126.1m in the year to September 28 1996. This compares with an 80 per cent increase in profits in Granada restaurants – after the group acquired the Forte group for £3.9bn in a takeover battle in January. Profits in the media division rose by 17 per cent over the same period.

The issue of a possible demerger was raised publicly yesterday at a press briefing on Granada's results.

Mr Gerry Robinson, the Granada chairman, said: "There is always the question of whether to keep the company as one, or split into parts".

He added, however, that there were no plans for a demerger in the short or medium term. Asked for his definition of short or medium term, he deflected the question by joking: "Two days."

There has been speculation in the City for some time that demerger was a strong option for Granada, although at the moment the company is preoccupied with integrating the Forte businesses and selling 16 of Forte's exclusive international hotels.

On the subject of Granada's media interests, Mr Charles Allen, chief executive, was sceptical about the prospects for a digital terrestrial television service capable of offering 35 new channels in the UK – something which the government is very keen on.

"It is dated technology. We tried to find the killer application. I don't see it," Mr Allen said yesterday.

He added that evidence from around the world suggested that people were prepared to pay only for films and exclusive sport channels.

Lex, Page 14; Results, Page 23

C&W in talks on Nynex link-up

US telecoms group would take stake in transatlantic cable venture

By Nicholas Denton in London

Cable and Wireless, the international telecoms company, is in discussions with Nynex Corp on an alliance that would involve the US regional telecoms operator taking a stake in C&W's planned $500m transatlantic cable link.

Under the proposed deal, C&W, which yesterday reported a 9 per cent increase in interim profits, would gain greater access to the international traffic generated by the 40 per cent of US multinational companies based in Nynex's home region around New York.

Nynex, which earlier this month approved a merger with its neighbour, Bell Atlantic, would take a 10-20 per cent stake in the joint venture between C&W and MFS Communications, the US-based business telecoms group, to lay a fibre-optic cable between the US and the UK.

C&W did not disclose the subject of its talks with Nynex. Any progress depends on the stance of the US Federal Communications Commission, which has restricted the entry of Baby Bells – US regional operators – into the international telecoms market. But Mr Dick Brown, C&W's chief executive and a friend of Mr Ivan Seidenberg, Nynex chairman, confirmed discussions with Nynex had broadened since the US operator agreed to put its UK cable interests into Cable & Wireless Communications last month.

Trevor Humphries
Thirsty work: Dick Brown (left), C&W chief executive, and chairman Brian Smith, who confirmed discussions had been held with Nynex about a partnership on various initiatives in the US

"We have looked at Nynex as a partner in various initiatives beyond Cable & Wireless Communications," Mr Brown said. "With traffic flow and multinational accounts, Nynex makes far more sense as a partner than any other Baby Bell."

Investment bankers believe successful co-operation between C&W and Nynex in transatlantic traffic could pave the way for a deeper alliance once US regulators allow the Baby Bells to link up with long-distance and international telecoms companies.

But C&W's immediate priority remains a deal with China's Ministry of Post and Telecoms under which China would take an interest in Hongkong Telecom ahead of the UK colony's handover, but C&W would retain control.

Meanwhile, C&W reported pre-tax profits excluding exceptional items of £673m for the six months to September, 9 per cent higher than a year earlier. The interim dividend rises to 3.4p from 3.1p.

C&W shares yesterday fell 1½p to 481½p.

While analysts welcomed growth in the turnover of C&W and associates such as One-2-One, the UK mobile telecoms operator – where it rose 14 per cent – the shares are already trading at a price/earnings ratio of 18.5.

Lex, Page 14

Mining groups in Chile urged to invest more

By Imogen Mark in Santiago

Foreign companies mining copper in Chile have been warned to invest in research and development or risk losing the "welcoming" treatment they have been receiving.

A senior executive from Codelco, the state-owned copper company, also urged companies to give more information in Chile about their financial activities.

Mr Ivan Valenzuela, vice-president in charge of Codelco's joint ventures, said the world's big mining groups should be trading on the Santiago stock market.

"Copper is a non-renewable resource, so what we are talking about is how to build up value-added industries, not so much in manufacturing as in know-how, in engineering and machinery," Mr Valenzuela told a private seminar on mining developments.

"That way, Chile has something for the future, if and when the copper runs out."

Mr Valenzuela, formerly Chile's under-secretary for mining, said listing on the Santiago stock market would raise the profile of foreign mining companies in Chile and bring Chilean investors in on their success.

"The general public in Sydney or Toronto or New York or London has much easier access to information about BHP or Placer Dome or Phelps Dodge or RTZ than the Chilean public, where their activities have such a major impact," said Mr Valenzuela. Only a handful of mining companies trade on the Santiago market.

Mr Valenzuela stressed that he was speaking in a personal capacity. However, at the same seminar Codelco's top executive, Mr Marcos Lima, criticised fellow miners for their low investment in industry efforts to promote the use of copper.

Chile is attractive to foreign mining companies because the government has an open attitude to inward investment and there is little regulation of the industry. The country has put little pressure on companies to re-invest profits in Chile or use local companies in their activities.

Chile currently exports $6bn of copper a year. Its producers are investing only $25m – less than 0.5 per cent of sales – in exploration and promotion. Codelco contributes $15m to $20m a year for this purpose to the Chilean branch of the International Copper Association – the industry budget is $40m.

Chile produces one-third of the world's mined copper. Demand is growing at 2.6 per cent a year, but production will rise at 5.6 per cent a year for the rest of the decade, with the bulk of it coming from Chile.

Private, mainly foreign companies and Codelco each account for about half of current production, expected to reach 3.03m tonnes of fine copper this year.

Commodities, Page 26

Chilean-led consortium takes control of Rio energy group

By Geoff Dyer in São Paulo

A consortium including Chilectra of Chile and Endesa of Spain yesterday bought a majority stake in the Brazilian electricity distribution company Cerj for R$605m ($587m).

The group of investors, which also includes Electricidade de Portugal, acquired the 70.2 per cent stake in a closed envelope auction at the Rio de Janeiro stock exchange.

The winning consortium will have to make an open offer at the auction price to the minority shareholders of Companhia de Electricidade do Estado de Rio de Janeiro.

Chilectra, which is the main participant, is investing R$360m in the acquisition while EdP is spending R$182m and Endesa R$60.5m. The successful privatisation follows the sale in May by the state of Rio de Janeiro of a 60 per cent stake in Light, another electricity distribution company.

Cerj, which supplies just under a quarter of the state's electricity and has 1.2m customers, made losses of R$62m last year and has around 4,400 employees. Analysts said Cerj had considerable growth potential but would need significant investment as its rate of energy losses of 28 per cent a year was well above the Brazilian average of 12 per cent.

The winning consortium beat off competition from two other groups – one led by Light, which included Electricité de France, Houston Power Industries and AES of the US, the other by Escelsa, the electricity distributor from the state of Espírito Santo, in company with GTD, a consortium of Brazilian pension funds, and the Florida Power & Light Company.

The successful sale to a group including foreign investors will provide a boost to the plans to privatise other Brazilian companies in the sector.

The foreign companies have not been dissuaded by the absence of a regulatory structure for the industry, which has still to be approved by Congress.

The state of Minas Gerais intends to sell a 33 per cent stake this year in Cemig, its distribution company, while the state of São Paulo, which has the largest electricity system in Latin America, is investigating ways of splitting up its network for privatisation.

Tokyo Electric profits dive

By Daniel Bögler in Tokyo

A cut in electricity charges, rising oil prices and a weaker yen combined to halve interim pre-tax profits at Tokyo Electric Power, the world's largest quoted power company.

The group, which serves metropolitan Tokyo and parts of eastern Japan, saw its pre-tax profits fall 51 per cent to less than Y62bn ($558m) for the six months to September.

Revenues dropped 2 per cent to Y2,496bn as a 1 per cent rise in electricity volumes was more than offset by January's tariff reductions, which lopped 2.3 per cent off average prices.

Kyushu Electric, which supplies Japan's southern island, recorded a 23 per cent fall in pre-tax profits to Y30bn as sales fell 3 per cent to Y704bn.

Shikoku Electric, the regional monopoly for the south-eastern island, saw its profits decline nearly a fifth to just under Y17bn on turnover 4 per cent lower at Y273bn.

The three companies also suffered by comparison with last year when a hot summer boosted demand for electricity for air conditioners.

Tokyo Electric said the tariff cuts reduced revenues by Y87bn in the half-year while higher oil prices cost it another Y7bn. As Japan must import all its oil and natural gas, the depreciation of the yen added a further Y38bn to costs.

All the country's integrated power companies, which generate and distribute electricity, have been seeking to reduce their dependence on imports by building up nuclear generating capacity. There are now 51 nuclear power stations in Japan, accounting for 30 per cent of total electricity supply.

Despite the poor results, Tokyo Electric is maintaining its interim dividend at Y25, even though that is not covered by earnings per share of Y22. It also expects a much better second half because, under Japan's regulatory system, power companies are required to pass on variations of 5 per cent or more in fuel costs after a three-month lag.

Tokyo Electric forecasts that its full-year turnover will be flat at Y5,032bn, limiting the decline in profits before tax to 10 per cent, at Y150bn.

Merck confident as profits rise 25%

By Sarah Althaus in Frankfurt

Merck, the German pharmaceuticals and speciality chemicals group, yesterday forecast a sharply improved performance for the full year after lifting net profits 25 per cent to DM341m ($227m) in the first nine months.

"There's no question that we won't achieve a substantial increase in profits again for 1996," Mr Hans Joachim Langmann, chairman, said.

He added that, if growth in the final quarter matched that of the first three, this would translate into a profits rise of about 30 per cent for the full year. However, the size of the increase would depend in part on developments in the ascorbic acid and domestic pharmaceuticals markets in the last three months. In 1995, group net profits totalled DM355m.

Merck, which went public just over a year ago, was also confident for 1997. "After the developments we have seen in 1996, we can't be anything less," Mr Langmann said, pointing to above-average growth in its pharmaceuticals activities and "remarkable progress" in other divisions.

The results beat analysts' expectations and the shares closed DM2 higher at DM56.75. "The pharmaceutical sales were surprisingly good ... it shows that things are going much better in the US than most of us had expected," said Mr Thomas Schiessle, analyst at Delbrück in Düsseldorf.

Nine-month operating profits rose 10.6 per cent to DM693m, which Mr Schiessle said matched growth rates registered at the big German chemical groups in the same period. Net profits before minority interests rose 17 per cent to DM365m.

Group sales rose almost 10 per cent to DM5.2bn, fuelled by pharmaceuticals. Mr Langmann also cited acquisitions, a normalisation of exchange rates, and gains in North America, where strong pharmaceuticals demand led to an 18 per cent rise in turnover. Adjusted for acquisitions and currency fluctuations, sales were up about 7 per cent.

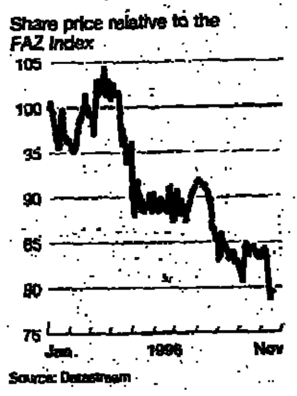
Latin American turnover rose 14 per cent while Europe – Merck's core market – and Asia showed more modest growth with sales up 7 per cent in both regions.

Pharmaceutical sales rose 13 per cent to DM2.9bn, with a particularly strong contribution from generic and self-medication products.

Sales of laboratory chemicals and equipment climbed more than 6 per cent to DM1.24bn. Turnover in speciality chemicals rose 5 per cent to DM972m despite pressures on margins in the global ascorbic acid market. Cash flow increased 13 per cent to DM694m.

Merck

Share price relative to the FAZ Index



Source: Datastream

Nestlé upbeat despite slowdown


Helmut Maucher: Nestlé on track for net profits of SFr3bn

By Roderick Oram, Consumer Industries Editor

Nestlé, the world's biggest food company, said yesterday that poor summer weather in Europe had prompted a second-half slowdown in its sales growth, but it remained confident of lifting net profits and sales in the year to December.

Despite a 12 per cent sales rise in October, the summer setback in mineral water and ice cream left group sales for the first 10 months up only 5.7 per cent at SFr48.3bn ($38bn). Weak economies in Europe, Brazil and Mexico were also negative factors.

Of the sales growth, 1.5 percentage points came from higher prices; 0.6 points from net acquisitions; 0.6 points from favourable currency factors and 3 percentage points from volume growth, down from 3.6 per cent in the first half.

The group was on track for full-year sales of around SFr60bn, up some 6.2 per cent from a year earlier, and net profits of more than SFr3bn, said Mr Helmut Maucher, chairman.

The year-to-date performance was in line with analysts' forecasts. Most are expecting net profits to rise about 11 per cent to SFr3.25bn – equal to Nestlé's previous peak in 1994 on sales of SFr60bn. The shares closed down SFr12 at SFr1,415.

"At the macro level, this was fine," said Mr John Campbell, a London-based analyst with Paribas, the French bank. But over the rest of the year, he would be watching factors such as soluble coffee prices.

Nestlé's disappointing ice cream performance mirrored that of Unilever, the European market leader. Analysts estimate that Unilever's third-quarter profits from ice cream fell roughly 60 per cent to around £70m ($115.5m).

Overall, Nestlé's European sales rose 5.1 per cent in the first 10 months to SFr22.4bn. Within that, volumes were up 2.7 per cent, or 2 per cent excluding fast growth in eastern Europe.

Emerging markets were the star for Nestlé, as they were for Unilever. The strongest region comprised Asia, Oceania and Africa, with sales up 8 per cent to SFr9.3bn.

Beverages were the weakest product area with sales up only 1.1 per cent to SFr13bn. Nestlé said that soluble coffee showed "encouraging growth", due in part to falling bean prices and restocking by retailers.

By contrast, mineral waters underperformed, analysts judged. Prices were stable across Europe but under pressure in France. However, falling packaging costs should help maintain mineral water profits, they added.

Bank IG wants to lift Gdanski stake

By Christopher Bobinski in Warsaw

Bank IG, the small listed Polish bank which last year salvaged the government's privatisation of Bank Gdanski by taking a strategic stake in it, has confirmed it wants to increase its present 31 per cent holding by at least 10 percentage points.

The country's central bank, The National Bank of Poland, has already given Bel Leasing, a Bank IG subsidiary, permission to increase its 9.5 per cent stake in Bank Gdanski to "between 10 and 20 per cent".

The permission was given after the finance ministry was told by HSBC, which originally handled the sale, that it was free to dispose of the treasury's residual 39 per cent stake, worth about $100m at current prices.

Originally the government said it would hold its stock for 12 months after the initial public offer closed on December 18 last year.

Bank Gdanski is Poland's only listed bank to have part of its stock held by shareholders abroad in the form of Global Depositary Receipts (GDRs). The GDRs amount to 19.5 per cent of the bank's stock.

Bank Gdanski shares are currently trading at 40 zlotys each on the Warsaw Stock Exchange, which represents a 66 per cent increase on the initial public offer price last December and gives the bank a price earnings ratio of 10.3.

The bank's net profits stand at 84m zlotys after 10 months, a 9 per cent decline on a year ago.

● Bank Gdanski has decided to sell its 40 per cent stake in Hevelius, a company which is managing one of 15 investment funds set up in Poland as part of the country's mass privatisation programme.

The funds, which are to be floated on the Warsaw Stock Exchange in the first half of next year, own strategic stakes in 512 local companies. Bank Gdanski's decision to withdraw from Hevelius follows disagreements with two foreign managers of the funds, UNP, a small Canadian venture fund, and Murray Johnstone, the Glasgow-based fund manager.

Successful debut for Belgian bank

By Neil Buckley in Brussels

Crédit Communal de Belgique, the Belgian bank which is allying with Crédit Local de France, made a successful debut on the Brussels bourse yesterday, closing at a 4.7 per cent premium to its offer price in Belgium's biggest initial public offering.

The Belgian bank, previously owned entirely by local authorities, is merging operations with the specialist French lender to form a new group, Dexia, capable of operating in public sector finance internationally. The Belgian shares are trading on the Brussels bourse as Dexia Belgium. The agreement with the French bank – already quoted on the Paris bourse – involved the flotation of about one-third of Crédit Communal.

The offer, launched on November 5, was almost five times subscribed, triggering the release of the maximum 12.66m shares – 34.5 per cent of the Belgian bank's equity – of which 1.83m shares were pre-placed with SMAP, the municipally owned insurance group.

The offer price of BFr2,675 a share, set before the market opened yesterday, valued the total offer at BFr33.86bn ($1.1bn), but the shares opened at BFr2,775 and ended the day at BFr2,800.

The offer price was at the maximum indicated when the offer opened.

Shares in Crédit Local on the Paris bourse gained FFr9.50 to close at FFr466 – equivalent to BFr2,717. Proceeds from the flotation will help reduce local authority debt as part of Belgium's efforts to meet criteria for European monetary union.

The flotation is only the second time a formerly state-owned company has achieved a listing on the Brussels bourse, following the privatisation of Distrigaz, the gas distribution monopoly, in May.

Mr Francois Narmon, Crédit Communal chairman, and the Brussels bourse hailed the offer as an important step in establishing a shareholder culture in Belgium, with 125,000 small investors applying for shares.

Previous partial privatisations have involved third parties taking direct stakes, such as last year's acquisition of 49.5 per cent of Sabena, the national airline, by Swissair.

Acquisitions aid advance at CSM

By Gordon Cramb in Amsterdam

CSM, the Dutch foods manufacturer, increased net profits 8.1 per cent to Fl 201.6m ($119.5m) in the year to September, aided by North American acquisitions in its ingredients division.

Sales at Fl 3.03bn were 11.2 per cent higher overall as the ingredients side produced revenues up 32.4 per cent to Fl 1.15bn. Turnover from food brands rose 3.6 per cent to Fl 1.28bn while sugar sales dipped 3.2 per cent to Fl 604m. The company said, however, that operating profits from each of the units had shown a slight increase.

During the year CSM added businesses worth some Fl 255m in annual sales and reached a deal with Cargill of the US to build a joint plant to produce lactic acid. In June it also agreed the takeover of Malaco, a Swedish sweets maker with sales of some Fl 215m, in a deal due to be concluded shortly.

The company also said yesterday that Dr J. Vink, currently vice-chairman, would succeed Mr C. van Loon as chairman next April. Dr Vink, who joined the board in April 1995, previously headed the fast-growing ingredients division. Mr van Loon's tenure was marked by a wrangle with the Amsterdam Stock Exchange over the extent of CSM's defences against a hostile takeover.

● ING, the Netherlands-based financial services group, hopes to receive a Canadian federal licence in the next few days to start a trust company for direct marketing of services in Canada, said Mr Aad Jacobs, executive board chairman. He said this would be a pilot project for similar initiatives in the US and other countries with mature financial services markets.

"This new company, ING Direct, will offer a limited range of savings and loans products through direct marketing, starting next year," Mr Jacobs said. He said ING had earmarked an initial investment of C$60m to start ING Direct.

EUROPEAN NEWS DIGEST

Soros buys stake in Moulinex

Companies controlled by Mr George Soros, the Hungarian-born investor and speculator, have bought a 5.5 per cent stake in Moulinex, the struggling French household appliances group, according to SBF, the French stock markets association. The company is in the throes of a restructuring plan which resulted in a FFr600m ($118m) provision being included in its results for the year to March 31 1996. This took net losses to a record FFr702m, the fourth consecutive annual loss.
David Owen, Paris

Metallbank to be sold

Metallgesellschaft, the German industrial and trading concern now back in profit after its near-collapse almost three years ago, is selling its banking subsidiary to obtain funds for acquisitions. It said SchmidtBank, based in Hof, Bavaria, had agreed to buy Metallbank, which has total assets of DM1.25bn ($832m).

Metallbank, which made a DM26m pre-tax profit last year, will keep its name and remain active in its specialised fields which include foreign consortium business using soft loans and export guarantee funds, corporate loans and securities and foreign exchange trading. The price of the purchase was not disclosed.
Andrew Fisher, Frankfurt

UAP in revenue fall

UAP, the French insurance group, said insurance revenues were FFr114.1bn ($22.4bn) in the nine months to September, a decline of 0.5 per cent from the same period a year earlier. The fall was due to the sale of SCOR and UAP's German units UAP Allgemeine and UAP Leben. On a comparable structure basis, revenues were up 3.9 per cent, UAP said. Life insurance revenues were up 4.5 per cent at FFr52.6bn while non-life insurance revenues fell 4.4 per cent to FFr61.2bn.
AFX News, Paris

GTM-Entrepose sales ahead

GTM-Entrepose, the French diversified industrial group, reported an increase in sales to FFr29.41bn ($5.79bn) in the nine months to September from FFr26.22bn a year earlier. The company said the 1995 sales figure included 50 per cent of a consolidated turnover for the first two quarters of Groupe Dumez-GTM, acquired on June 30 1995. On a constant structure basis, GTM-Entrepose's sales were up by 1.5 per cent, with a pro forma nine-month turnover in 1995 at FF28.973bn.
AFX News, Paris

Preussag shares fall 3%

Shares in German industrial group Preussag fell more than 3 per cent yesterday after the company said profits for the business year ending September 30 fell sharply from the previous year. Mr Michael Frenzel, chairman, said full-year results would correspond to the development in the first half, when profits plunged 30 per cent. Mr Frenzel said group sales in 1995/96 slipped to DM25.1bn ($16.7bn) from DM26.3bn. But he said shareholders would still be offered an "attractive" dividend.
Reuter, Frankfurt

Viag upbeat on profits

Viag subsidiary SKW Trostberg said it expected group net profit to climb from DM120m to DM145m ($96.4m) in 1996. Sales of the chemical group were expected to rise to around DM3.9bn from DM3.875bn, SKW Trostberg said. Despite the divestment of a number of marginal activities, sales rose 4 per cent to DM2.97bn in the first nine months and operating earnings were stable. *AFX News, Trostberg*

Pechiney advances

Pechiney, the French packaging group, posted consolidated sales of FFr18.703bn ($3.68bn) for the first nine months of 1996, up 3.54 per cent from FFr18.064bn a year earlier, based on a new structure. *AFX News, Paris*

■ Mr Mario Sarcinelli, chairman of Banca Nazionale del Lavoro, said that if the joint bid by BNL and Istituto Nazionale Assicurazioni for a 60 per cent stake in Banco di Napoli succeeded, INA would become the bank's main shareholder. He said the BNL-INA consortium was open to other parties. *AFX News, Milan*

Comments and press releases about international companies coverage can be sent by e-mail to international.companies@ft.com.

Cable and Wireless plc interim report

Financial results for the six months ended 30 September 1996

FINANCIAL HIGHLIGHTS

Turnover of the company and its subsidiaries	£2,942m	+9%
Turnover - including share of associates	£3,401m	+14%
Operating profit	£746m	+17%
Pre-tax profit excluding exceptional items	£673m	+9%
Earnings per share excluding exceptional items	14.3p	+10%
Interim dividend per share	3.4p	+10%

Chief Executive's statement

We have delivered a strong competitive performance during the first half and I remain confident about the outlook.

We achieved impressive headline growth with turnover ahead by 14% demonstrating the strength of demand for our services and the continued development of our start up operations. Efficiency continued to improve with operating margins at 25% compared with 23% and cash flow from operations exceeded £1 billion, an increase of £229 million.

Earnings per share improved 10% and the interim dividend is 3.4 pence, an increase of 10%.

We continue to realise value from our investments and included in these results is an exceptional profit of £61 million arising on the flotation and part disposal of AsiaSat.

Our recent moves to realign our position in the fast growing German market and the proposals to create an integrated telecommunications, information and entertainment services company in the UK will substantially strengthen Cable & Wireless for the future.

Richard H. Brown

Group profit and loss account

for the 6 months ended 30 September

Year ended 31 March 1996 £m		1996 £m	1995 £m
6,172	Turnover	3,401	2,994
655	Less: share of turnover of associated undertakings	459	283
5,517	Turnover of the company and its subsidiary undertakings	2,942	2,711
4,206	Operating costs	2,196	2,075
1,311	Operating profit	746	636
	Exceptional items:		
(34)	Profits less (losses) on sale or termination of operations	–	–
199	Profit on disposal of fixed assets	61	199
	Associated undertakings:		
(24)	Share of profits less (losses)	(40)	(3)
(86)	Exceptional items	–	–
(25)	Net interest and other similar income	(33)	(17)
1,341	Profit on ordinary activities before taxation	734	815
320	Tax on profit on ordinary activities	153	190
1,021	Profit on ordinary activities after taxation	581	625
414	Minority interests	223	194
607	Profit attributable to shareholders	358	431
Pence		Pence	Pence
27.5	Earnings per share	16.1	19.6
26.4	Earnings per share excluding exceptional items	14.3	13.0
10.0	Dividends per share	3.4	3.08
1.57	Average exchange rate US$:£1	1.53	1.59

Group balance sheet

at 30 September

31 March 1996 £m		1996 £m	1995 £m
	Fixed assets		
5,338	Tangible assets	5,376	5,085
1,287	Investments	1,275	882
6,625		6,651	5,967
	Current assets		
87	Stocks	97	117
1,013	Debtors – due within one year	1,184	1,266
254	– due after more than one year	246	241
1,041	Deposits and cash	1,328	1,065
2,395		2,855	2,689
	Creditors: amounts falling due within one year		
419	Loans and obligations under finance leases	497	552
1,838	Other creditors	1,985	1,512
138	Net current assets	373	625
6,763	Total assets less current liabilities	7,024	6,592
	Creditors: amounts falling due after more than one year		
1,689	Loans and obligations under finance leases	1,675	1,330
150	Other creditors	19	32
205	Provisions for liabilities and charges	219	190
4,719	Net assets	5,111	5,040
	Capital and reserves		
555	Called up share capital	559	552
429	Share premium account	458	419
(128)	Associated undertakings	(196)	(87)
2,403	Profit and loss account	2,700	2,875
3,259	Equity shareholders' funds	3,521	3,759
1,460	Equity minority interests	1,590	1,281
4,719		5,111	5,040
1.53	Closing rate of exchange US$:£1	1.56	1.58

Group cash flow statement

for the 6 months ended 30 September

Year ended 31 March 1996 £m		1996 £m	1995 £m
1,867	Net cash inflow from operating activities	1,025	796
	Returns on investments and servicing of finance		
(143)	Interest paid	(61)	(25)
83	Interest received	33	4
(8)	Interest element of finance lease rental payments	(2)	(3)
(185)	Dividends paid to shareholders	(148)	(127)
(252)	Dividends paid to minorities	(147)	(138)
28	Dividends received from investments	9	11
(477)		(316)	(278)
	Taxation		
(49)	UK corporation tax paid	(14)	(18)
(202)	Overseas tax paid	(57)	(35)
(251)		(71)	(53)
	Investing activities		
(1,002)	Purchase of tangible fixed assets	(401)	(463)
5	Capital element of finance lease rentals received	1	3
(943)	Purchase of investments	(180)	(219)
(5)	Purchase of shareholdings in subsidiary undertakings	(2)	–
21	Sale of tangible fixed assets	33	15
57	Sale of subsidiary undertakings	30	–
240	Sale of investments	73	8
(69)	(Increase)/decrease in short term deposits (more than three months to maturity when acquired)	85	198
(1,696)	Net cash outflow from investing activities	(361)	(458)
(557)	Net cash inflow/(outflow) before financing	277	7
	Financing		
	Issue of ordinary share capital		
(37)	– parent	(20)	(15)
(53)	– to minorities in subsidiary undertakings	(7)	(11)
(197)	Issue of Eurobonds	–	–
(439)	Other long term debt issued	(142)	(61)
167	Long term debt repaid	69	127
19	Capital element of finance lease rental repayments	3	5
(540)	Net cash (inflow)/outflow from financing	(97)	45
(17)	Increase/(decrease) in cash and cash equivalents	374	(38)
(557)		277	7

Commentary on results

Turnover of the company and its subsidiaries at £2,942 million was 9% higher than the comparable period last year. The growth arose mainly in Hong Kong, North America and the Caribbean. Cable & Wireless has disclosed turnover including its share of the turnover of its associates for the first time this period. Turnover including share of associates at £3,401 million was 14% higher than the comparable period last year. The growth in associates' turnover in the period was 62% demonstrating the rapid development of Cable & Wireless's start up operations.

Operating profit at £746 million was 17% higher than the comparable period last year. Cable & Wireless is exposed to movements in exchange rates. It is estimated that had last year's average rates of exchange applied to this period's reported currency results, the operating profit would have been some £18 million lower than that now reported. The translation difference arises primarily from the movement in the rates of exchange between sterling and the Hong Kong dollar.

Pre-tax profit before exceptional items increased by 9% over the comparable period last year to £673 million. The lower percentage rise in pre-tax profit compared with operating profit arises from increased losses in associated undertakings primarily as a result of including Vebacom losses which were not included in the comparable period last year. Had Vebacom losses not been included in this half year then pre-tax profit before exceptional items would have increased by 16%.

Pre-tax profit at £734 million includes the £61 million exceptional profit discussed below.

The exceptional item of £61 million related to the disposal of a 10% share in AsiaSat as part of the flotation of the company on the New York and Hong Kong stock exchanges which demonstrates our continued ability to realise value from our investments. A £21 million tax charge arises on the disposal. The exceptional item in the comparable period last year of £199 million related to the disposal of the 5% holding in Mannesmann Mobilfunk.

Dividend. The directors have declared an interim dividend of 3.4 pence (1995 – 3.08 pence) per ordinary share. The dividend will be paid on 28 February 1997 to shareholders on the register at 10 December 1996 (the Record Date). The cost of the interim dividend is £76 million (1995 – £68 million).

Shareholders with an existing scrip dividend mandate will automatically receive new shares in lieu of cash dividend. Scrip dividend mandate forms and variations notices should be sent to the company's registrars for receipt no later than 16 January 1997. The registrars (The Royal Bank of Scotland plc in Bristol, telephone 0117 930 6666) will supply scrip dividend mandate forms and copies of the full terms and conditions of the scrip dividend scheme on request. The scrip dividend share value will be calculated on the basis of the average of the middle market quotations of the ordinary shares on the London Stock Exchange for the five dealing days commencing on 2 December 1996. Shareholders who hold their existing shares in certificated form on the Record Date will be posted share certificates for their new shares. Shareholders who hold their existing shares in uncertificated form on the Record Date will be allocated and issued their new shares as uncertificated shares on 28 February 1997 unless the Company is unable to do so under the provisions of the Uncertified Securities Regulations 1995 or under the facilities and requirements of CREST, in which case the shares will be issued as certificated shares and share certificates posted as above.

For legal reasons, shareholders resident in the United States may not participate in the scrip dividend scheme.

If you have any enquiries as a UK shareholder, please call the Company Secretary on 0171-315 6767. US shareholders should call Citibank, N.A. on 1-800-422-2066.

Post balance sheet events

On 9 October 1996 Cable & Wireless announced that RWE was joining its German alliance. The network and services operations of Vebacom (45% owned by Cable & Wireless) and RWECOM will be combined into two new companies: a services company to be owned 51% by Vebacom and 49% by RWECOM; and a network company to be owned 49% by Vebacom and 51% by RWECOM. RWE is expected to contribute net cash of DM2.5 billion and the existing assets of RWECOM to the venture.

On 22 October 1996 Cable & Wireless announced that it had reached agreement to create one of the UK's leading providers of integrated telecommunications, information and entertainment services by creating Cable and Wireless Communications from a merger of the operations of the Mercury Group, Nynex CableComms Group, Bell Cablemedia and Videotron Holdings. Immediately after completion of the transactions, and assuming full acceptance of the offer, Cable & Wireless will own 52.6% of the fully diluted share capital of Cable and Wireless Communications. It is intended to make arrangements so that Cable and Wireless Communications is listed on the London Stock Exchange and in the USA.

Notes

1. The interim financial statements are prepared in accordance with applicable accounting standards. The policies applied are those set out in the Annual Report and Accounts for the year ended 31 March 1996. The interim financial statements are unaudited and do not constitute statutory accounts but have been reviewed by the auditors.
2. The interim statement for the 6 months ended 30 September 1996 was approved by the directors on 19 November 1996.
3. The group profit and loss account and group balance sheet and group cash flow statement for the year ended 31 March 1996 are extracts from the statutory accounts for the year which have been delivered to the Registrar of Companies. The report of the auditors on those accounts was unqualified.
4. Copies of the interim report are available from the company's registered office at 124 Theobalds Road, London, WC1X 8RX. For further information call 0171 315 4476 or visit our worldwide web on www.cwplc.com

CABLE & WIRELESS

Cable and Wireless plc. 124 Theobalds Road. London WC1X 8RX. www.cwplc.com

Global competitiveness observed from an unfamiliar angle

New Morgan Stanley study tackles the issue from the viewpoint of the analyst, rather than the economist, writes Tony Jackson

The competitive advantage of nations is a topic dear to the heart of economists. Year by year, bodies such as the World Economic Forum rank countries by their competitiveness. The listings contain the usual suspects: the US, naturally; and – in varying order – Singapore, Hong Kong, Switzerland and so forth.

There is a snag to this. Countries do not compete for business, companies do. And while a company's origin obviously has some bearing on its effectiveness, most of the world's leading corporations are now transnational.

One answer is to look at the problem not top down, as an economist, but bottom up, as an industry analyst. This is the approach of a study from the US investment bank Morgan Stanley.

The study asked Morgan Stanley analysts around the world to identify companies with a sustainable competitive edge worldwide. It then arrived at a map of global competitiveness.

The results are in one sense familiar. The US advantage is overwhelming: of 238 companies identified as world leaders, over half – 125 – are American.

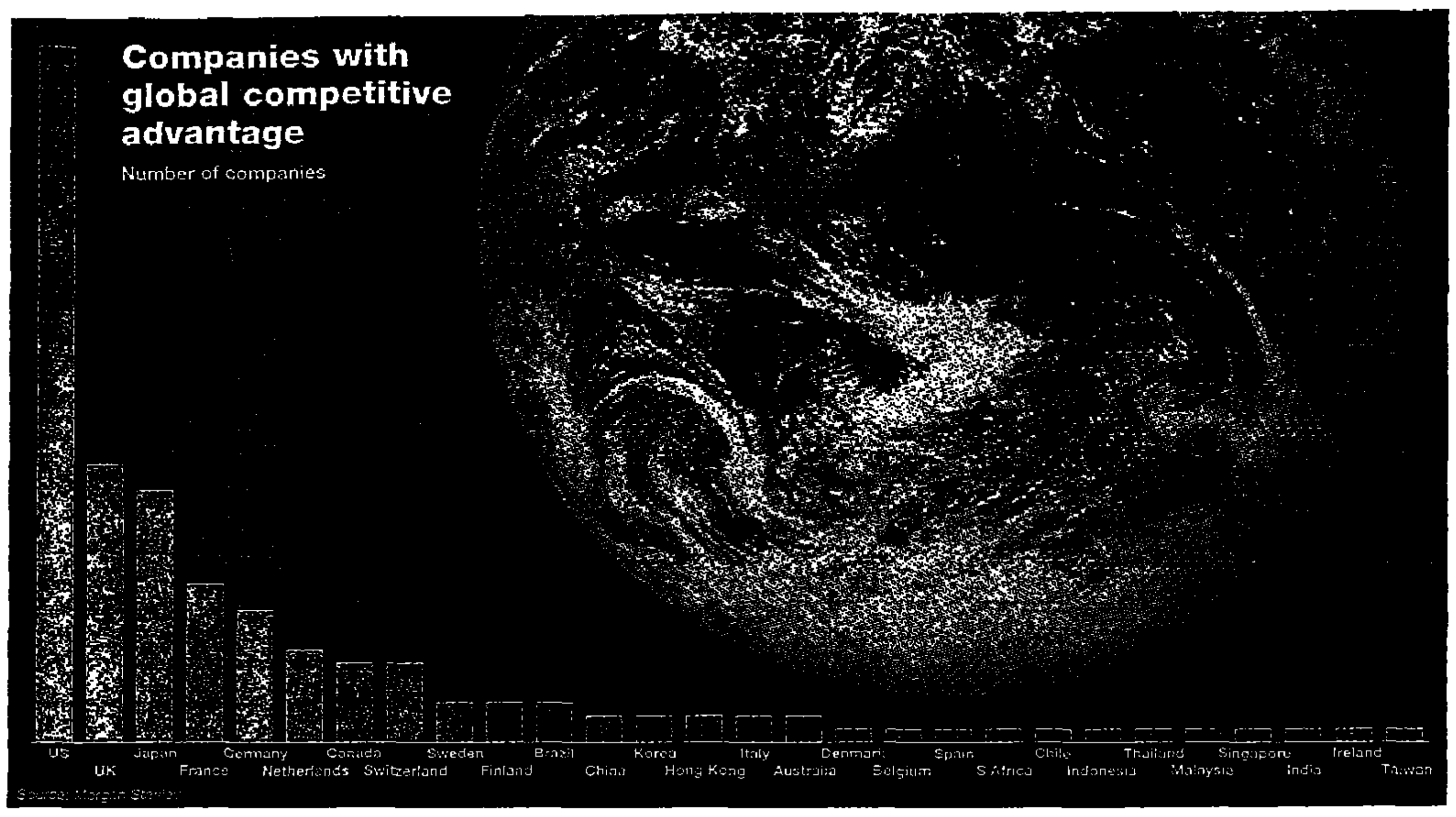
Thereafter, the picture is more surprising. Second in terms of the number of world leaders is the UK, with 21. Japan comes third with 19, Germany fourth with only 10. Singapore, Hong Kong and Taiwan are nowhere.

There is arguably a bias here. The study is aimed at Morgan Stanley's investment clients. It therefore looks only at quoted companies, mostly large and easily traded. The UK economy, like that of the US, is unusually reliant on big quoted companies.

According to Mr Richard Davidson, of Morgan Stanley's London office, there is more to it than that. "On a macro and micro basis", he says, "we think the UK has a fairly bright future. The macro reforms of the past 15 years have made it one of the most competitive countries in the world."

More so than Japan? Well, Mr Davidson says, the Japanese findings came as a surprise. "The gap has opened up because around the world, the advantages which the Japanese had in the mid-1980s, like just-in-time management, are now owned by everybody."

The next leap forward has been a matter of new technology and downsizing, where the lead has been taken by the US, followed by the UK. "The culture in Japan has not shifted to allow that. We found very few Japanese companies which had made the right structural changes."



The study's methodology can be summed up by looking at the car industry. Only three carmakers make the list: BMW, Toyota and Honda. The Americans, for once, do not qualify.

In accordance with the teaching of Professor Michael Porter of Harvard, Morgan Stanley's analysts argue that competitiveness comes down to either of two things: differentiation, or low-cost production. BMW has the first, the Japanese the second. The Americans have neither. Nor, as a corollary, do they practise true globalisation, merely "localisation across markets."

Among UK companies thrown up by this approach, some are unsurprising: Glaxo Wellcome, British Airways, Unilever, Reuter and RTZ. Others are less obvious: Spirax Sarco, for instance, or Bass.

Spirax Sarco, an engineering company which makes steam controls, is there because it has a world market share of 30 per cent, half again as big as its nearest competitor. This advantage is reckoned to be sustainable – a key aspect of the study – for 10-20 years: that is, it would take that long for a new entrant to overhaul it.

Bass is included not because it is the UK's biggest brewer, but because its Holiday Inn chain is the world's biggest hotel operator by number of properties. It is global in reach; and Bass, the study says, has the financial muscle to push that forward.

If the UK ranks high collectively, individual companies may find the study less encouraging.

ICI does not qualify, though its erstwhile daughter company Zeneca does. British Steel, once claimed as the world's most profitable steel company, does not make it into a list of eight steel makers from such as China, Korea and India. Among technology companies, GEC does not qualify, though General Electric of the US does. Nor do British Aerospace or Rolls-Royce, or any of the British banks.

Worldwide, less familiar names in the lists include AES Corp, Kurita Water, Cone Mills and Nan Ya Plastics. They are, respectively: a US power plant operator; a Japanese maker of ultra-pure water systems for the semiconductor industry; a US denim maker; and a Taiwan polyester producer.

As a means of describing whole economies, the Morgan Stanley approach is obviously rough and ready. Its great advantage is to approach the issue from an unfamiliar angle. If not a substitute for the top-down method, it is at least a useful addition.

Continental surges 62% to DM125m

By Sarah Althaus in Frankfurt

Continental, the German tyre company, continued its strong first-half trend with a 62 per cent rise in pre-tax profits, from DM77m to DM125m ($83m) for the first nine months.

The group said yesterday that it had exceeded budget plans for the period and that, without extraordinary charges related to the closure of a plant in Ireland, profits would have been as high as DM205m.

It said that, assuming the winter tyre season continued favourably, it expected fourth-quarter profits to match strong previous year levels.

Results exceeded market expectations and the shares gained 98 pfennigs, or almost 4 per cent, to DM26.28.

Turnover rose 2.6 per cent, from DM7.44bn to DM7.63bn. The group said that, taking restructuring costs into account, it expected to come quite close this year to its medium-term goal of a continued net margin on sales of 2.5 per cent.

Last year's margin was 1.5 per cent, compared with 0.7 per cent in 1994.

The world's fourth largest tyre maker said that all divisions performed well in spite of difficult economic conditions. Cost-cutting and slightly lower raw material costs helped offset a fall in volumes.

The passenger vehicle tyre business increased profits, supported by a sharp reduction in losses in the highly competitive original equipment sector.

Turnover rose 2.3 per cent, helped by increased sales of its Barum, Mabor and premium Continental brands.

The commercial tyres division reduced losses but sales dropped 7.1 per cent, hit by an unexpected downturn in demand for truck tyres and a slump in the replacement business.

Restructuring measures helped General Tire, its US unit, improve nine-month earnings, although turnover dropped from DM1.57bn to DM1.53bn.

ContiTech, the technical products arm, posted sharply higher profits as sales climbed 5.8 per cent.

Continental said it was continuing with its drive to cut costs and move production to lower-cost sites in the Czech Republic and Portugal. The group said it was going ahead with its plans to shift half of the production at its Traiskirchen plant in Austria to the Czech Republic.

The move, which is expected to result in the loss of 1,100 of the plant's 2,300 employees, was initially delayed by a controversy in Austria about employment practices by foreign investors, especially German companies.

The Traiskirchen region is economically depressed and offers little alternative employment possibilities to redundant workers.

Axa's worldwide sales nudge FFr120bn after 22.7% rise

Axa, the French insurer, said it posted consolidated sales of FFr119.98bn ($23.65bn) in the first nine months of 1996, up 22.7 per cent from FFr97.79bn the previous year, AFX News reports from Paris.

The group said its life assurance sales in the first nine months of 1996 had risen 38.5 per cent to FFr64.43bn.

Sales in Europe increased 19.1 per cent to FFr23.17bn, while those in France rose 21 per cent to FFr12.5bn. Sales in the UK were up 7 per cent at FFr6.2bn.

Sales in North America were FFr28.29bn, up 6.2 per cent, while sales in Asia Pacific were worth FFr12.96bn. The higher figures in this area followed the integration of National Mutual last year.

Of the Asia Pacific total, Axa Life in Japan contributed FFr81m, Axa Life in Singapore FFr194m, Dongbu Axa in South Korea FFr455m, National Mutual of Australia and New Zealand FFr9.79bn, and National Mutual Asia of Hong Kong FFr2.44bn.

The company said non-life insurance sales rose 2.4 per cent to FFr22.22bn. In Europe, they were up 11.2 per cent at FFr42.37bn.

Sales in France were up 3 per cent at FFr12.3bn. Non-life sales in North America were up 5.5 per cent at FFr31.11bn.

In Asia Pacific, the sales figure was FFr13.16bn. This was an increase of FFr30m on the previous year.

COMPANIES AND FINANCE: THE AMERICAS

RBC to spend C$500m on consumer banking

By George Graham, Banking Correspondent

Royal Bank of Canada plans to spend more than C$500m (US$373m) on its consumer banking division in an attempt to "build the bank of the future".

Mr John Cleghorn, RBC chairman and chief executive, said yesterday the bank would invest C$324m in new technology and a facelift for its branch network, and spend an additional C$191m on training for its 55,000 employees. He said RBC did not see its branch network as a costly liability that needed to be slashed.

"A lot of profitable client relationships use the branch. We've found in the past that rapid branch closures lose you market share, guaranteed," he said in an interview. "You can make a big mistake thinking everybody wants to deal with you on a PC – but you also have to cater for the client who wants to use the PC."

RBC has increased its efforts to develop online banking, joining the Integrion home-banking network set up by IBM and 15 North American banks.

The bank is also enthusiastically promoting in Canada the Mondex smart card, which can be used as an "electronic purse" and to make transfers over the telephone. "For somebody that wants to do PC transactions from home, the missing link is cash, and now you've got that with Mondex," he said.

RBC has also expanded telephone banking, with 870,000 customers now paying a fee for its Royal Direct phone banking service. Mr Cleghorn said phone banking was expected to be in profit in two to three years.

John Cleghorn: branch network not a liability — Brendan Corr

Canada's banking industry faces considerable changes as the country is about to embark on a review of its banking legislation.

The debate has so far revolved around peripheral issues such as whether banks should be allowed to sell insurance through their branches or enter the car leasing market.

But Mr Cleghorn said his biggest fear was that regulators would be unable to keep up with the pace of change in the financial services sector. "I hope that regulators will be able to adjust the playing field so that you are not overly fettered by past regulations," he said.

Mr Cleghorn has also been urging the government to ease restrictions on mergers between Canada's largest banks. Although some consolidation had already taken place in the back office, with joint ventures to perform functions such as document processing, size was becoming increasingly important, in wholesale and retail banking, he said.

The bank has ruled out acquisitions of US retail banks because prices are too high to produce an adequate return.

Ukraine Enterprise IPO falling far short of target

By Bernard Simon in Toronto

A Canadian company planning investments in Ukraine has sharply curtailed an initial public offering after the collapse of an alleged deal with Morgan Grenfell Asset Management, the troubled UK fund manager.

Ukraine Enterprise Corporation, *listed on the Alberta* Stock Exchange, has so far raised only C$8.6m (US$6.4m), compared with its original target of C$44m.

UEC alleged that Mr Peter Young, the MGAM fund manager dismissed recently after irregularities in three funds that he managed, agreed to invest C$20m in its IPO. It alleged MGAM's compliance department also approved the deal.

MGAM, a unit of Deutsche Morgan Grenfell, has denied there was any firm or binding commitment to invest the money.

UEC dealt with Mr Young partly through Fiba Nordic Securities, a London-based stockbroker, which described its role as "a facilitator on behalf of MGAM". UEC says it does not have the resources to pursue the dispute.

Much of the equity raised so far has come from members of the Ukrainian community in Canada, mostly based in Alberta and other western provinces. In addition, the Canadian government *has agreed to provide a* C$10m interest-free loan.

Mr Chuck Loewen, UEC president, is visiting institutional investors in New York and London this week in an effort to expand the company's equity base. The offering is due to close on November 29.

Funds raised so far are expected to be sufficient for UEC to proceed with the purchase of a 60 per cent stake in a joint venture to extract coal from waste at Ukrainian coal mines. UEC said waste mounds at the mines contained sizeable quantities of usable anthracite.

UEC has also signed conditional agreements for five other investments in Ukraine in the plastics, confectionery, meat packaging, canning and banking sectors. They include a 35 per cent stake in Lvov-based Elektron Bank, set up in 1992 by a local television and electronic equipment maker.

However, the future of these investments hinges on UEC's ability to raise more equity in coming weeks.

Mexico eases move to GAAP

By Leslie Crawford in Mexico City

Mexican banking authorities are planning a soft landing for commercial banks in the switch from Mexican to stricter US Generally Accepted Accounting Practices (US GAAP), which will take place in January.

The new rules are expected to bring about a large increase in loans which banks must report as past-due, forcing them to set aside considerable sums as provision against bad debts.

The authorities and banks, worried about the impact of a sudden jump in past-due, or non-performing, loans on Mexico's already-strained financial system, are therefore considering a "transition period" to give banks more time to adjust to the new accounting regulations.

Mr Javier Gavito, a vice-president at the National Banking and Securities Commission, said the length of the transition would be decided and announced in December. "We are studying different scenarios," Mr Gavito said. "The financial markets will be given ample warning of the help banks will be getting with the transition to US GAAP."

Many Mexican banks, led by Bancomer, the country's second-largest financial group, have been setting aside extra provisions to prepare for the change to US accounting practices.

The transition to US GAAP is expected to hit mortgage portfolios particularly hard. Under Mexican accounting rules, only the instalment of a loan that has lapsed is considered past-due. In the US, however, the entire mortgage must be classified as non-performing if no payment has been received for 180 days. For certain commercial credits and consumer loans, the cut-off date is 90 days.

Since March, banking regulators have conducted private exercises with the banks to test the sensitivity of the mortgage portfolio to different cut-off dates.

"Under US GAAP," said Mr José García-Cantera, a senior banking analyst at Salomon Brothers in New York, "past-due loan figures for the mortgage portfolio increased three-fold".

However, Mr García-Cantera said mortgage portfolios should have begun to show an improvement in September, when interest subsidies for mortgage holders began to take effect.

AMERICAS NEWS DIGEST

Canadian switch maker at record

Newbridge Networks, the fast-growing Canadian maker of high-speed telecommunications switches and software, broke profit and revenue records in the second quarter, with a 38 per cent advance in earnings, although the results were slightly below analysts' forecasts.

Newbridge shares, in line with their reputation for volatility, fell in early trading in Toronto yesterday, but had gained C$1.35 to C$45.75 by midday.

The Ottawa-based company posted earnings of C$62.8m (US$46.8m), or 37 cents a share (based on Canadian accounting principles) in the three months to October 27, up from C$45.4m, or 27 cents, a year earlier.

Based on US accounting principles, earnings per share climbed from 20 US cents to 28 US cents. Sales rose from C$217.1m to C$316.1m.

Newbridge has about a third of the world market for time-division multiplexers, a core component in most telecom switches. It is also a leading supplier of more sophisticated ATM (or asynchronous transfer mode) and frame-relay switches.

Newbridge set up a partnership earlier this year with Siemens, the German electrical and electronics group, to develop a new generation of ATM switches.

Cash reserves totalled C$481.9m at the end of October, up from C$455.7m at the start of the fiscal year. Long-term debt is negligible. *Bernard Simon, Toronto*

CNA Financial in $2bn deal

CNA Financial has signed what is thought to the biggest information technology outsourcing deal yet in the US insurance industry, handing control of a large part of its central IT activities to Computer Sciences.

The deal, which the two companies said would be worth $2bn over the next 10 years, will leave responsibility for technical development which is considered strategically important with the insurer, Computer Sciences said.

Under a separate arrangement, CNA will also transfer the administration and processing work for its 1m life assurance policies into a new joint venture company it has set up with Computer Sciences, which already handles similar work for 23 other insurers.

The move reflects the growing cost pressures on US life companies, which are undergoing a round of mergers to make themselves more competitive.

The life assurers have failed to reduce their unit costs at a time when the lower cost mutual fund industry has emerged as a strong competitor, said Mr Scott Hyten, a Computer Sciences senior vice-president. *Richard Waters, New York*

Setback for Norfolk Southern

Norfolk Southern, one of the biggest US railroads, lost a round in its fight to stop a merger between the rival CSX and Conrail when a federal judge in Philadelphia refused to grant an injunction blocking the $8.6bn agreed deal. The judge said he found no evidence that Conrail directors had violated their fiduciary duty in preferring the CSX bid over Norfolk Southern's.

CSX has made a two-tier offer of $95.50 for each Conrail share, 40 per cent of it in cash up front. The balance is to be paid in CSX stock if and when the deal is cleared by the regulatory authorities.

But Norfolk Southern has made a higher, all-cash bid of $110 a share, valuing Conrail at $10bn. In addition, Norfolk Southern is offering to buy Conrail's stock now and put it in a trust pending regulatory approval.

The Philadelphia judge said Conrail did not have to opt simply for the best short-range price or profit for shareholders when considering which offer to accept, and rejected suggestions that shareholders had been misled by Conrail or CSX.

But Norfolk Southern immediately appealed: and meanwhile, Conrail may have to sweeten its offer significantly if it is to win shareholder approval. *Richard Tomkins, New York*

Christmas consumption expected to edge up

By Richard Tomkins in New York

US retailers have shown encouraging signs of profits growth as their third-quarter results pour in, but nervous investors are still not convinced the sector is on course to recover from a string of dismal Christmas-ses.

In the US, the Christmas holiday selling season is traditionally regarded as starting the day after Thanksgiving, which falls on the third Thursday of November.

One cause for concern is that, because of the way the calendar falls, Thanksgiving is unusually late this year, so reducing the number of shopping days in the season. Gloomy retailers are convinced this will depress sales.

In reality, people seem unlikely to cut friends and relatives from their gift lists simply because there are fewer shopping days available. Yet the fact remains that consumers are still a long way from resuming the shopping habits they adopted in the late 1980s.

The economy is growing only slowly, people are nervous about corporate downsizing, ageing baby boomers have other spending priorities, and working women have less time to shop.

Making matters worse is the fact that the retail sector is burdened by overcapacity. The growth of discount stores and specialty superstores such as Toys "R" Us and Home Depot has resulted in a big addition to retail space at a time when spending is almost static.

In the past few years, retailers have repeatedly been caught out by an excess of optimism in the run-up to Christmas. They have built up inventories in the expectation of strong sales, only to encounter a deafening silence at the tills. Then, in a last-minute panic, they have had to slash prices and profit margins in order to rid themselves of the unwanted goods.

This year, investors are hoping that retailers will avoid the mistake of overstocking.

They are also hoping that the tills will ring a little louder, and have been looking for signs of strengthening consumer demand in the third-quarter figures just published.

Indeed, some retailers have been doing much better. Kmart and Woolworth have continued their slow recovery from severe financial difficulties, The Limited and Toys "R" Us are bouncing back from last year's depressed performance, and Home Depot and Gap have continued their strong growth.

Even so, it is not a clear picture that emerges. Mr David Poneman, an analyst at Sanford C. Bernstein, says: "I don't think we get a single message from the top 10 retailers. It has been very much a series of individual stories, light on a common theme."

However, Mr Poneman believes this year's holiday season will be more profitable than last year's. "The industry's inventory-to-sales ratios are in better condition than they were this time last year," he says.

"Though I do share the concerns of some retailers that the difficult calender may constrain the rate of year-to-year improvement."

Mr Mark Husson, an analyst at J. P. Morgan Securities, says it is instructive to look at Wal-Mart Stores' figures because the company has grown so large that it has almost become the US retail market.

On the face of it, Wal-Mart's figures looked good: net profits were up 12 per cent to $684m. But Mr Husson says most of the increase came from a gain on the sale of the company's photo processing business to Fuji Photo Film, without which earnings would have been flat.

"I think what this tells you is that the consumer is pretty cautious," Mr Husson says. And he also points to Wal-Mart's decision to stop selling computers in most of its stores. "If Wal-Mart doesn't think there is going to be much in the way of computers to sell this Christmas, that suggests it is going to be another low-ticket holiday season."

Another factor that could suppress sales is the continuing high level of consumer instalment debt. But as Mr Husson says, most people still have jobs, and the political uncertainty of the US elections is now out of the way. "So I think at the end of the day it will be an okay Christmas, if a low-ticket one."

One exception to the low-ticket theme could be luxury goods stores, which have been enjoying big increases in sales because of the feel-rich factor generated by booming stock markets. If they continue to rise, Mr Husson says, "there will be plenty of Gucci ties and scarves flying around over the Christmas period".

US retailers - third-quarter results

Store group	Sales ($bn) 1996	1995	% change	Net profit/(loss) ($m) 1996	1995	% change
[illegible]						
Sears Roebuck	9.1	8.4	+7	279	228	+22
[illegible]						
Dayton Hudson	6.1	5.6	+9	107	44	+143
[illegible]						
J.C. Penney	5.5	5.1	+8	236	240	-2
[illegible]						
May Dept. Stores	2.8	2.5	+12	118	110	+4
[illegible]						
Woolworth	1.9	1.9	-3	69	34	+103
[illegible]						
Gap	1.4	1.2	+20	134	117	+15

Note: discontinued operations excluded. Source: Company reports

Sony turns its face to brave Hollywood future

Christopher Parkes on attempts to draw a line under the entertainment arm's chaotic past

Nobuyuki Idei, president of Sony, set his reputation on the line in Los Angeles this week. The occasion was a public endorsement before Hollywood's merciless press boulevardiers of the new team he has personally installed at the group's entertainment division.

It seemed intended to mark the cut-off line between the era of management chaos and uneven performance at the division's flagship studios, Columbia and Tri-Star, and a brave new future dotted with vague objectives.

Prime among these: an initial public offering of shares in Sony Pictures Entertainment – "but I cannot tell you when".

The prospect was well-received on Wall Street. As Philips found when it sold off 20 per cent of Polygram, SPE could well prove to be valued at much higher multiples than the electronics and hardware business of its parent, according to Mr Christopher Dixon, an analyst at PaineWebber. It would increase pressure to perform on its operating divisions, and give the company added financing flexibility, he said.

Timing of the IPO will depend on how SPE president Mr John Calley, a veteran film executive from United Artists and Mr Jeff Sagansky, a strategist who shares the presidency, perform in the next few years.

Almost seven years after Sony's ill-fated $3.4bn purchase of Columbia from Coca-Cola – and almost two years after Mr Idei took charge at Sony – order appears to have been restored.

After a dire summer season with a sequence of under-performing films, a Barbra Streisand vehicle, *The Mirror Has Two Faces*, opened last weekend to strong reviews. However, the company will need a run of successes before Mr Idei can confidently approach the market with his share offer – and the key to new sources of film financing.

Success at the box office will also depend on the new management's ability to attract top directing, acting and writing talents to studios which – unfairly, says Mr Idei – have become benchmarks for failure.

Although he insisted this week that public perceptions of the studios were wrong, even Mr Idei was prepared wryly to admit to one failing. "So far, Sony has no face in Los Angeles," he said.

If saving face were enough, the installation of the new management team would be a sound start on the road to rehabilitation. But Mr Calley and Mr Sagansky may have other problems.

Conventional wisdom in some quarters of the entertainment business – illustrated by Walt Disney, Time Warner and News Corp – dictates that success depends on marrying production with distribution.

Although SPE owns a cinema chain, federal regulations prevent foreign entities from owning television stations. Mr Sagansky said this week the company was still undecided on whether it needed its own distribution, noting that it had not experienced any problems winning buyers and air-time for its television programme productions.

There is no obvious shortage of potential partners – CBS, the network-based company soon to be split off from the Westinghouse group, and General Electric's NBC are most frequently mentioned.

Nor, with television earning consistent profits, is there any rush. The situation is similar at the successful music division, based on the former CBS Records, which this year so far has won a 15 per cent share of the US compact disc market.

SPE's annual operating profits of about $250m still represent scant return on the group's investment to date – equivalent to the budgets of about four new films. Still, the division's financial status is markedly healthier than two years ago, when Sony first admitted its mistakes and wrote off $3.2bn against its studio losses.

This leaves Mr Calley, who started work last week, and his colleagues time and space to tackle the main task at hand.

"I am not responsible," Mr Idei said. It was the new team's job to analyse past errors, assess the current slate of films in development and draft a business plan for the film business.

The sooner that is done – and providing box office success proves less elusive than in the past – the sooner the new managers will see SPE stock options adding bulk to their incentives-based pay packets.

See Lex

Nobuyuki Idei: public views of studios wrong, but Sony lacking 'face' in Los Angeles

CONTRACTS & TENDERS

ANZ optimistic despite modest rise to A$1.1bn

By Nikki Tait in Sydney

Australia and New Zealand Banking Corporation (ANZ) yesterday posted a modest 8 per cent increase in after-tax profits for the year to September, but its share price strengthened after Mr Don Mercer, chief executive, said the bank expected to make further gains in the current year.

After-tax profit was A$1.12bn (US$888m), compared with A$1.03bn the previous year. Earnings per share rose more strongly, by 11 per cent, to 76.3 cents, while the return on shareholders' equity advanced from 17.6 per cent to 18.3 per cent.

The result was struck after only a small reduction in the charge for bad and doubtful debts, from A$174m to A$154m. ANZ said asset quality continued to improve, with net non-accrual loans falling from A$1.08bn to A$724m.

ANZ said the profits gain came largely from a 13 per cent growth in total assets. Asset growth was "reasonable" in all markets, but the strongest lending expansion continued to come in ANZ's international operations, notably in Asia.

After-tax profits in the Asia-Pacific region and south Asia rose 25 per cent, to A$99m, and 33 per cent, to A$36m, respectively. By contrast, the core Australian business showed a more modest 7 per cent advance, to A$657m after tax, while New Zealand operations saw a 5 per cent reduction, to A$188m.

ANZ said gross interest margins in Australia and New Zealand had been lower, "reflecting intensely competitive conditions, particularly in the home loan market". Group net interest income rose from A$3.08bn to A$3.32bn, while the gross interest spread narrowed from 2.79 per cent to 2.67 per cent.

Operating expenses rose 8.5 per cent, to A$3.54bn, with the operating expense to net operating income ratio widening from 65.9 per cent to 67.3 per cent.

ANZ said the increase reflected higher personnel costs, which were caused partly by additional staff needed in the first phase of an internal restructuring. Mr Mercer indicated that the benefits of this, in terms of lower expenses, should come through in the second half of 1996-97.

Asked about the prospect of a profits increase in the current year, the chief executive said: "We expect it of ourselves." ANZ warned that a further contraction of margins was likely. It also expected subdued economic activity in early 1997, with some acceleration later in the year. "There are some risks to the short-term outlook in New Zealand arising from the prolonged period of very high real interest rates and uncertainty surrounding the new political arrangements."

MRCB to buy 19% of Rashid Hussain

By Lei Chen in Kuala Lumpur and James Kynge in Singapore

Malaysian Resources (MRCB), a property and publishing group with strong government links, announced yesterday it would buy a 19.05 per cent stake in the country's leading stockbroking group, Rashid Hussain.

The purchase is the first step in a complex merger which will form one of the nation's biggest banking and financial services groups. The other parties in negotiations to form the merged group are DCB Holdings, a banking affiliate of Rashid Hussain, and Kwong Yik Bank, the 75 per cent-owned subsidiary of Malaysia's biggest bank, Maybank.

MRCB said it would buy 66.13m shares in Rashid Hussain at M$15.80 each, the last price before trading was halted to prepare for the merger talks. The property and publishing group said it would issue 130.6m new shares at M$8 each to pay for the acquisition.

Together with another 3.5m Rashid Hussain shares which it has bought in the open market, MRCB will own a total of 69.63m shares in the brokerage, or a 20.06 per cent stake.

MRCB has close links to the United Malays National Organisation, the dominant party in Malaysia's ruling coalition. Through its stake in Rashid Hussain, the government is likely to maintain a significant say in the actions of the merged banking and financial services company, industry analysts said.

It is not yet known what the total assets of the merged entity will be, but analysts said that it would probably be the second or third biggest banking group in Malaysia. That Maybank was willing to sell off a profitable subsidiary to a future competitor is a measure of the Malaysian government's powers of persuasion, the analysts said.

Qantas upbeat in face of fuel price increases

By Nikki Tait

Qantas, the privatised Australian airline in which British Airways holds a 25 per cent stake, said yesterday it still expected to increase profits in 1996-97, despite higher fuel prices and a softening market.

It warned, however, that it would need to exceed the A$330m (US$261.9m) of cost-savings planned for the current year.

The forecast was given to shareholders at the company's annual meeting in Melbourne yesterday by Mr Gary Pemberton, chairman.

Mr Pemberton acknowledged that predictions were difficult in the aviation business: "This prediction is not without downside risk and the extent of any improvement will be largely determined by market conditions in the second half of the year."

He said the market had softened since Qantas set its budgets for the year, with "both loads and yields reflecting tough economic conditions". He added that the recent rise in fuel costs and the higher Australian dollar were also likely to affect profit growth.

Mr Pemberton also criticised Australia's federal government, warning that attempts to ensure that Ansett develops as a second Australian international carrier, through the award of route rights, could have serious implications for Qantas.

"Under this policy, Ansett has been very sensible and selectively attacked the more attractive routes flown by Qantas. The government has taken comfort from the resulting short-term increase in the combined market share of Australian carriers", he said.

He warned that "longer-term, the situation is likely to be the reverse," with Qantas less able to invest in new markets. Mr Pemberton added there was a "real concern" that some capacity rights might be reallocated from Qantas to Ansett.

Shareholders, however, seemed more concerned about the Qantas share price, which hit A$2.44 after last year's flotation, but is now standing at A$1.96.

Mr Pemberton also addressed the problem of restrictions on foreign ownership, which prevent overseas buyers from holding more than 50 per cent of the stock. "Domestic demand has weakened at a time when, ironically, overseas demand is under-realised," he said.

Qantas was exploring ways to resolve this, though the company would not entertain two classes of equity, such as "A" shares for domestic investors and "B" shares for foreigners.

Formosa Plastics to expand US plant

By Laura Tyson in Taipei

Formosa Plastics, the listed flagship company of the Formosa Plastics group, Taiwan's biggest industrial concern, plans to invest US$800m to expand a petrochemical plant in the US.

Share prices of the group's three listed companies firmed yesterday on the news. Formosa Plastics gained T$2.50 to close at T$65.00; Nan Ya Plastics climbed T$3.50 to T$57.00; and Formosa Chemical & Fibre rose T$0.30 to T$38.80.

US government approval for the project in Texas is expected by the end of next year and construction will take two years. The annual production capacity of the plant will rise from 680,000 tonnes of ethylene to 1.56m tonnes. Ethylene is a raw material used to make PVC, of which the Formosa group is among the world's leading producers.

In 1993, the Formosa group, which has interests including petrochemicals, electronics and power generation, launched a US$9bn naphtha cracking complex in central Taiwan. Construction of the complex is scheduled to be completed in six years.

Once the planned expansion in Taiwan and in the US is complete, the group's combined annual ethylene production will be 2.91m tonnes.

Reuter

'A turning point' for Deutsche Telekom

Investors had hoped the Tuesday debut of Deutsche Telekom on the Tokyo Stock Exchange would generate some upward momentum in the moribund stock market, writes Gwen Robinson in Tokyo.

The stock opened at Y2,500, up about 18 per cent from its public offering price of DM28.50 (Y2,100), but fell back Y60 to close at Y2,440. In Wednesday's trading, Deutsche Telekom lost a further Y30 to close at Y2,410.

Despite the unremarkable performance, Mr Ron Summer, Deutsche Telekom chief executive (pictured centre), said the Tokyo listing was "a turning point" in the company's global strategy.

With Mr Sommer at the Tokyo Stock Exchange yesterday were Mr Joachim Kroske (right), Deutsche Telekom chief finance officer, and Mr Shin Akamine, TSE press officer.

Dah Sing in private bank venture

By John Ridding in Hong Kong

Dah Sing Financial Holdings, the Hong Kong financial services group, yesterday announced the formation of a joint venture international private banking operation with Abbey National and Hambros Bank, of the UK.

The move is designed to capitalise on the growing demand for private banking services in Hong Kong and the Asia-Pacific region. According to the shareholders, it also represents a vote of confidence in Hong Kong's business prospects ahead of next year's return to Chinese sovereignty.

Under the terms of the accord, the two UK banks will each invest about HK$85m (US$11m) and will each hold 24.5 per cent of the capital of D.A.H. Holdings, the parent company of the new venture. Dah Sing will hold the balance of the shares and have 80.2 per cent of the voting rights in the company.

The vehicle for the joint venture will be the Wing On Bank, a wholly-owned subsidiary of Dah Sing which has a single branch, in Hong Kong. A Channel Islands subsidiary will also be established under the holding company.

According to Dah Sing, the new bank will target clients in Hong Kong and south-east Asia with liquid assets in excess of US$250,000. The Channel Island operation, which will be managed by Hambros, will offer complementary services to clients.

The new operation is part of Dah Sing's strategy of forming joint ventures in selected market sectors.

Mr Charles Perrin, Hambros chief executive, said the new venture provided the opportunity to develop one of its core businesses in one of the world's fastest-growing private banking markets.

Abbey National said the move was a step in the expansion of its Hong Kong business, after the establishment of a representative office in the territory earlier in the year.

CONTRACTS & TENDERS

CONTRACTS & TENDERS

COMPANIES AND FINANCE: UK

Takeover of Darwin Molecular will give Bill Gates a 3% stake in the UK company

Chiroscience in $120m biotechnology deal

By Daniel Green

Chiroscience yesterday announced the $120m takeover of a fellow biotechnology company, based in the US, in a deal which will provide software billionaire Mr Bill Gates with a 3 per cent stake in the UK company.

Chiroscience, based in Cambridge, is buying Seattle's Darwin Molecular to increase the number of drugs it has in development. Mr Gates, founder of Microsoft, the world's biggest software company, owns a 14 per cent stake in Darwin.

The deal takes Chiroscience away from its origins as a business that purified drugs through the separation of molecules that are chemically identical but whose shapes are mirror images of each other.

Mr John Padfield, Chiroscience chief executive, said that a review of strategy had shown that separating mirror images – chirality – would not be productive enough to sustain the growth of the company over the long term.

The City welcomed the deal marking Chiroscience shares 10p higher to 358½p, valuing the company at £303m ($500m).

He and his City advisers on the deal, Lehman Brothers, had looked at several other companies following the review of strategy.

Chiroscience and Darwin began talks a year ago and signed a collaboration agreement last spring.

Darwin had been the only company Chiroscience studied to combine two methods of drug discovery: combinatorial chemistry, in which hundreds of thousands of molecules can be quickly tested for their potential as drugs, and genomics, the search for human genes that are linked to a disease.

Dr David Gates, Darwin's chief scientific officer, said the company's technologies had led to potentially interesting new drugs but lacked the funds to develop them. "We did not want to go to a large pharmaceuticals company for support because we would have had to sell them too much," he said. He added that a flotation would have been difficult because stock markets in the US had grown cautious of the biotechnology sector in recent weeks.

A London-based pharmaceuticals analyst said it might also have been hard for Darwin to persuade investors it was different from other genomics and combinatorial chemistry companies.

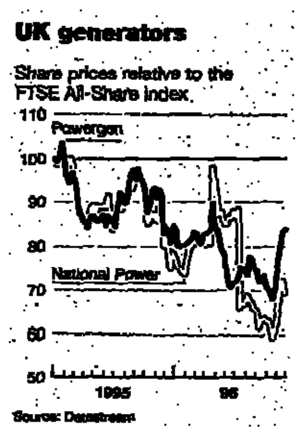
Privately-owned Darwin was founded in 1991 and raised $55m through a series of private fund raisings. It has about $25m in cash and is absorbing about $1m a month in R&D spending. Both companies make losses.

Mr Gates paid $8m for his Darwin stake.

LEX COMMENT

Natl Power

National Power's interim results brought the stock's recent run to a juddering halt. But it looks more a temporary hiccup than a fundamental setback. Certainly there was no compelling reason for the shares' 4 per cent drop: perhaps the dividend was a shade disappointing, but there was nothing amiss in the underlying business. Nor should investors have been dismayed by the £52m write-down of NP's stake in Southern Electric; that the company owned this overpriced asset was hardly news. In reality, the recovery in both generators' shares has been an overdue adjustment of a particularly acute case of utility blight. Probably there has also been some switching into PowerGen which does look a little cheaper: strip out short-term lease payments and NP's enterprise value is 6.2 times next year's earnings before interest, tax and depreciation against PG's 5.5. But with NP still trading at an implausible prospective yield of 7.2 per cent, the better answer is not to switch but instead to buy both.



Of course there are risks. With the forced disposal of power stations having so far had no apparent impact on prices, the possibility of the regulator's returning for another bite is real. And no-one yet knows how well either company has judged its aggressive spending overseas. But these questions are well discounted at current prices. After all, investors can pick up few other manufacturing stocks at prospective price/earnings multiples of eight times.

Courtaulds warns on sterling

Gordon Campbell

By Jenny Luesby

The impact of strong sterling on the international competitiveness of British companies is being overlooked, according to Courtaulds, the chemicals company.

Unveiling interim results yesterday, Mr Gordon Campbell, chief executive, said the current strength of sterling, boosted by rising interest rates, was "unhelpful". If current exchange rates were maintained, they would reduce the chemical group's results, and those of all internationally competitive businesses based in the UK, he said.

His warning came as the group delivered results that fell short of most analysts' expectations. Pre-tax profits fell to £64m ($106.6m) in the six months to September, down from £68m.

On a like-for-like basis, there had been some progress, said Mr Campbell. Operating profits on continuing businesses rose by 7.4 per cent to £80.3m, on sales up 2.3 per cent at £1.06bn. Including discontinued businesses, sales fell by 6.5 per cent, to £1.08bn.

The main setback came in the cyclical fibres businesses. The acrylics business had begun to recover, but margins had further deteriorated in viscose. Margins were squeezed last year by rising wood pulp prices.

With these businesses supplying less cash, analysts had been predicting an "inevitable" fund-raising exercise. However, the group announced a sharp improvement in cash-flow to £103m in the first half, compared with £78m last time. Mr Howard Evans, finance director, said this was partly a result of lower raw material prices, but it also represented a improvement in stock turnover, and the amount of money owed. Gearing fell to 44 per cent from 54 per cent.

There was also strong growth in the coatings and polymers businesses, which now account for 60 per cent of turnover, and in Tencel. These areas had "exceeded all expectations", said Mr Campbell.

20 Asians seek to launch bank with Midland

By Khozem Merchant

A group of 20 UK-based Asian businessmen is in advanced talks to launch a bank jointly with Midland, part of the London-based HSBC financial group.

The Midland tie-up would build on an initiative announced a year ago and is designed to help gain Bank of England approval for the new bank. Midland was approached by Mr Srichand Hinduja, chairman of the London-based Hinduja group, and the driving force behind the venture.

Midland, one of the UK's top four clearing banks, would own 45 per cent of the new bank and the Asians 6 per cent, with the balance held by outside investors. The promoters are keen to attract "Asian shareholders", according to one businessman associated with the project.

HSBC is the world's largest financial group, with pre-tax profits in 1995 of £3.67bn ($6.05bn). The Asians hope the partnership with HSBC will help further distance the Asian community from the fall-out of the collapse of the Bank of Credit and Commerce International. BCCI, with its large Asian client-base was closed by the Bank of England amid corruption charges in 1991. "We have joined hands with Midland. This is a terrific opportunity," said one of the group.

For Midland a deal would bring the opportunity to tap the ethnic market in Britain and the Asian diaspora in south-east Asia and North America.

The possibility of exploiting the UK ethnic market appealed to Midland's parent. HSBC has a significant Asian client base in south-east Asia and in India.

Senior executives from HSBC in Hong Kong are in London finalising details of the venture, which would be the most ambitious diversification into financial services yet by the UK's Asian business community.

The new bank would have a "separate identity", with its own branch network in areas with a high Asian population density such as London and Birmingham.

It would share back-office costs with Midland, which has a retail network of 1,700 branches in the UK.

It is thought an Asian drawn from the so-called "group of 20" will be chairman and a top Midland or HSBC executive from Hong Kong will be chief executive.

Pearson in talks on Spanish TV stake

By Jimmy Burns

Pearson is looking at the possibility of extending its media interests in Spain by taking a stake in Telemadrid, a local TV channel based in the Spanish capital which is to be privatised.

According to Mr Antonio Beteta, a senior economy official for the local government of Madrid, current owners of the channel, senior Pearson executives have expressed an interest in buying a significant shareholding in Telemadrid and taking over its management.

Pearson executives have visited Madrid for preliminary talks.

Mr Beteta is accompanying the Madrid regional president Mr Alberto Ruiz-Gallardon on a visit to several European capitals to promote foreign investment and was in London this week.

Spain is an important market for Pearson, through its ownership of Recoletos, the publishing group which publishes Marca, Spain's top sports newspaper and Expansion, the business and financial daily.

Pearson, whose interests include Thames Television and the Financial Times, has been looking at a number of opportunities for expansion in the media recently.

Granada says early Exclusive sale likely

By Scheherazade Daneshkhu and Raymond Snoddy

Mr Gerry Robinson, chairman of Granada Group, said yesterday that the TV and leisure company was likely to sell Forte's remaining 16 Exclusive hotels in a series of deals over the next two to three months.

The group, which acquired Forte in a £3.9bn ($6.43bn) hostile bid in January, sold its first Exclusive on Tuesday – the Hyde Park Hotel in London. Mandarin Oriental, the Hong-Kong based luxury hotel group, paid £86m.

Mr Robinson announced a strong set of full-year results, which were above market expectations and underpinned by a sharp rise in profits in hotels and restaurants.

Mr Mark Finnie, leisure analyst at NatWest, said: "It's very difficult to pick up any bearish points from these results. The market wanted to see the underlying businesses performing well and Forte turning the corner, and Granada has amply demonstrated that."

Pre-tax profits for the year to September 28 rose from £351.3m to £404.8m, including exceptional charges of £75.6m, mainly to reorganise Forte. Underlying pre-tax profits rose by 37 per cent to £480.4m on turnover ahead 60 per cent to £3.82bn.

Net debt was £3.5bn, giving gearing of 322 per cent, after £353m of disposals, of which £123m was raised through the sale of Forte assets. Net interest payable rose to £196.5m (£36.8m).

Chubb makes A$220m Australian purchase

By Nikki Tait in Sydney and David Blackwell

Chubb Security, the electronic alarms and locks group, yesterday agreed to buy the fire protection and building security businesses of James Hardie, the Australian building materials group, for A$220m ($171.6m) cash.

The two businesses, which operate in both Australia and New Zealand, had profits before interest and tax of A$5.9m and sales of about A$250m in the year to March, when net assets stood at A$75m. They employ about 1,700 people.

Sir Ernest Harrison, Chubb chairman, said the latest acquisition was "of major strategic value for Chubb in relation to the development of its business in Australia, Asia-Pacific and world-wide". After rationalisation, the deal was expected to be earnings enhancing in its first full year.

In the summer the group said it was entering a new phase of expansion which would include further acquisitions and increased investment, particularly in Asia.

The latest acquisition increases Chubb's share of the Australian fire protection market from 7 per cent to 27 per cent, and building security from 2 per cent to 7 per cent.

The deal marks the third recent purchase by Chubb in Australia, which last December paid A$11.8m for the Hardie's security monitoring and manpower business. Since then it has bought the MSS Security business from Mayne Nickless, the Australian transportation group which has also been rationalising.

Hardie said the disposal was part of its continuing rationalisation programme, which is aimed at focusing the group on the fibre cement business and on building products generally.

Over the past three years, the Australian company has pared back its business fairly significantly – selling some operations, such as its irrigation products division, and closing more than 20 manufacturing sites.

The sale will exclude the Australian-based mechanical and electrical contracting businesses, and the James Hardie Engineering (New Zealand) unit. These are likely to be disposed of "shortly".

National Power focuses on overseas investments

By Simon Holberton

National Power, Britain's biggest generator, will spend at least £300m ($496m) a year on foreign expansion until the end the century, according to Mr Keith Henry, chief executive.

Since March, the company had invested £900m in foreign generating ventures, he said yesterday, building up an interest in 7,500MW of generating capacity.

National Power had £1.5bn of projects under review. Its planning assumption was that it would invest £300m a year abroad, although it had balance sheet capacity to sustain a level of £600m.

Mr Henry said there was a huge market overseas. "Every time you walk away from one project three more turn up." He maintained that US utilities' purchases of English electricity companies meant more opportunities for National Power abroad. "The more who come here and pay too much for a rec the more we like it."

Mr Henry also announced flat pre-tax profits of £251m, before an exceptional charge of £57m, for the 26 weeks to September 30. Last year's £254m interim profit was struck in 27 weeks.

The exceptional loss was incurred carrying an 8 per cent interest in Southern Electric, the regional electricity company which National Power was blocked from acquiring in May.

National Power said Southern Electric's share price would have to rise to about 850p for the company to break even on its holding. Southern Electric shares closed down 4p at 698½p

National Power's share price fell 18p to 435p yesterday. Mr Kevin Lapwood, utilities analyst at Merrill Lynch, said the fall reflected profit-taking after a strong rise over the past weeks.

National Power said that gearing, including its non-recourse debt on overseas projects, stood at 93 per cent. Excluding overseas projects gearing was 59 per cent.

RESULTS

		Turnover (£m)		Pre-tax profit (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
Ashquay	6 mths to Sept 30★	0.732	(8.59)	0.077	(0.035)	0.2	(0.2)	-	-	-	-	-
Birkdale	6 mths to Sept 30	6	(6.93)	0.241	(1.15L♠)	0.2†	(1.2L)	nil	-	nil	-	nil
Bradford Property	6 mths to Oct 5	18.2	(13.5)	14.2	(11.7)	-	(-)	3.8	Jan 3	3.5	-	7.8
Brunel	Yr to June 30	188.3	(172.7)	20.9L♠	(12♥)	17.8L†	(13.7)	0.5	Mar 3	0.5	0.5	0.5
Cable and Wireless	6 mths to Sept 30	3,401	(2,994)	734♥	(815♥)	16.1	(19.6)	3.4	Feb 28	3.08	-	10
Century Inns	Yr to Sept 30	24	(21.6)	7.13	(4.89♠)	15.7†	(13)	4.5	Feb 20	-	5.75	-
Chester Water	6 mths to Sept 30	3.13	(3.13)	1.32	(1.3)	7.7	(7.3)	2.55	Jan 6	2.12	-	6.36
Clan Homes ф	6 mths to Sept 30	0.06	(0.062)	0.022♠	(0.024)	1.8	(2.02)	-	-	-	-	-
CML Microsystems	6 mths to Sept 30	8.39	(8.75)	0.117	(0.725)	1.35	(8.38)	-		-	-	6.1
Courtaulds	6 mths to Sept 30★	1,075	(1,149)	64	(67.8)	10.6	(11.3)	4.45	Jan 20	4.3	-	15.9
Cranswick	6 mths to Sept 30	79.1	(68.5)	1.84	(1.45)	8.8	(7.2)	3	Jan 31	2.6	-	9.2
Dawson Intl	6 mths to Sept 28	154.3	(168.6)	7.3	(9♥)	3.1	(3.8)	1.5	Jan 10	1.5	-	3
Eidos	6 mths to Sept 30	20.5	(0.026)	4.71L♠	(0.364L)	38L†★	(0.13)	-	-	-	-	-
FKI	6 mths to Sept 30	458.9	(429.2)	51.4	(39.4)	6.1†	(5.2)	3.1大	Feb 10	2.2	-	5.2
Granada	Yr to Sept 28	3,817	(2,381)	404.8♠	(351.3)	37†	(41.3)	8.765	Apr 1	7.9	13	11.75
Greenway	6 mths to Sept 30	6.08	(5.56)	0.08L	(0.564)	0.28L	(1.98)	0.5	Jan 15	0.5	-	2
Heath (CE)	6 mths to Sept 30★	61.5	(82.1)	4.62♥	(10.3♥)	6.9	(3.3L)	1.5	Jan 13	3	-	6
Hurlingham Props ф	Yr to May 31	0.117	(0.111)	0.029L♠	(0.036)	2.12L	(1.76)	-	-	-	-	-
Kalamazoo	6 mths to Sept 30	35.2	(32.4)	2.34	(2.01♥)	3.72†	(3.66)	1.2	Jan 27	1.1	-	4.15
LBMS §	6 mths to Oct 31	6.29	(12.4)	14.1L♠	(0.498)	55.3L	(1.8)	nil	-	nil	-	nil
McCarthy & Stone	Yr to Aug 31	61	(67.3)	11	(9.2)	7	(7.2)	1.75	Jan 20	2	2.3	2
National Power	6 mths to Sept 30	1,597	(1,668)	194♠	(254)	11.6	(16.2)	6	Jan 14	5.4	-	23
Northern Foods	6 mths to Sept 30	940.8	(967.3)	59	(53.1)	7.48	(6.56)	3.6	Mar 27	3.5	-	9
Rellec ф	4 mths to Aug 31#	0.08	(0.003)	0.214L	(0.005L)	3.09L†	(2.06L)	-	-	-	-	-
Southnews	6 mths to Sept 28	18.4	(13.2)	2.68	(1.97)	11.3	(8.48)	2.25	Jan 10	1.76	-	5.81
Sterling Inds	6 mths to Sept 30	38.8	(28.1)	5	(3.9)	10.73†	(9.56)	3.2	Feb 10	2.8	-	8.5
TBI	6 mths to Sept 30★	26	(14.3)	8.7♥	(4.24♥)	2.52†	(2)	-	-	-	-	1
Tinsley Robor	6 mths to Sept 30	24.9	(21.3)	1.8	(1.5)	3.9†	(3.7)	0.9	Jan 31	0.75	-	2.25
UK Land	6 mths to Sept 30	-	(-)	0.672	(0.59)	7‡	(6)	-	-	-	-	2◆
Wagon Indl	6 mths to Sept 30	190.5	(193.4)	11.1	(12.8)	13.54†	(16.97)	7	Feb 20	7	-	19.75

Investment Trusts		NAV (p)		Attributable Earnings (£m)		EPS (p)		Current payment (p)	Date of payment	Corresponding dividend	Total for year	Total last year
F&C Inc & Growth	6 mths to Sept 30	109.6	(102)	0.698	(0.756)	2.06	(1.76)	0.6‡	Dec 30	0.75	-	3.4
Govett Oriental	6 mths to Sept 30★	202.2	(195.5)	1.68	(2.61)	0.47	(0.73)	0.2	Dec 20	0.2*	-	0.75*大大
Yeoman		-	(-)	-	(-)	-	(-)	7.1‡‡	Dec 20	6.4	-	14.4

Earnings shown basic. Dividends shown net. Figures in brackets are for corresponding period. ★Comparatives restated. ♠After exceptional charge. ♥After exceptional credit. †On increased capital. 大Foreign income dividend. фAim stock. §USM stock. #Comparatives for 10 months. ◆Excludes 2p special. ‡On reduced capital. ‡Second interim; makes 1.55p to date. *Equivalent after adjustment for scrip issue. 大大Included foreign income dividend element. ‡‡Second interim; makes 12.6p to date.

INTERNATIONAL CAPITAL MARKETS

European prices hit by signs of German upturn

GOVERNMENT BONDS

By Richard Adams in London and Lisa Bransten in New York

Signs of an upturn in the German economy and news of a large US trade deficit sent minor tremors through the European bond markets.

A more optimistic German business climate index report for last month from Ifo, the economic research institute, drove yields up in the main European markets.

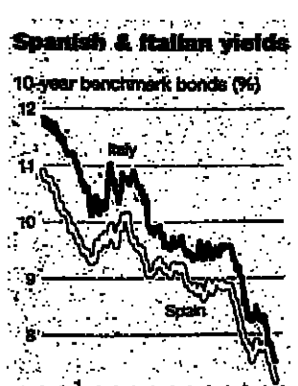
The Ifo index rose to 97.4, from 95.7 in September, suggesting stronger German business activity. This, combined with continuing high growth in German annualised M3 money supply – up 8.4 per cent in October – led analysts in London to predict that the last vestiges of hopes for a cut in interest rates had disappeared.

Liffe's December bund futures contract settled at 100.88, down from 101.19 the previous day, ending a succession of solid rises. In the cash market, the benchmark 10-year bund fell 0.34 to 102.87, its yield rising 4 basis points to 5.84 per cent.

But some analysts think a German recovery is further away than yesterday's reaction would indicate. "For the time being, the 10-year bund will probably struggle to break the 5.78 per cent yield level," said Mr David Brown, chief European economist at Bear Stearns. "Also, the bund futures contract has yet to tackle the 101.46 all-time high. These two levels offer significant resistance to bunds, but once they break down decisively, it will look as if the 10-year bund yield can make a strike towards the 5.53 per cent post-war low," he added.

Spanish & Italian yields

10-year benchmark bonds (%)



Source: Datastream

The fall in bunds brought down other European prices. Futures on Italian government bonds fell through support at 128.00 to settle at 127.30 on Liffe, down from 128.11 on Tuesday.

December futures on Spanish bonds settled at 111.05, unchanged. They earlier reached a high of 111.45 in intra-day trading, helped by speculation that the Bank of Spain's securities repurchase operation tomorrow may see a cut in interest rates. However, some traders dismissed this speculation as unlikely.

Bonos started the day strongly in the cash market, and the 10-year yield spread over bunds briefly narrowed to a new low of 130 basis points, before widening again to close at 141 points.

But the price of the 10-year benchmark fell away to 110.22 by the close in London, a decline of 0.58, its yield rising to 7.24 per cent.

In the last few days, analysts have started to focus on the yield spread between 10-year Italian BTPs and Spanish bonos.

Several banks have predicted Italian outperformance, with BTP yields narrowing to around – or even below – *those of bonos. This* convergence is likely to be favoured by bullishness deriving from the lira's expected return into the European exchange rate mechanism it left more than three years ago.

Gilts also had a bad day, caught between falling bunds and US Treasuries, and receiving some bearish economic news for the UK economy. December long gilt futures were trading at 110$\frac{19}{32}$ before news that M4 money supply leapt 10.3 per cent in October. The data led to a fall, with the contract settling at 110¼.

But analysts at Nikko in London said M4 growth has been boosted by 1 per cent since the introduction of gilt repos. They pointed out that, correcting for this, the M4 figure would be at the upper end of the government's target of 9.0 per cent.

US Treasury prices slipped in early trading as a wider than expected US trade deficit pushed down the value of the dollar.

Near midday, the benchmark 30-year Treasury was ¼ weaker at 100$\frac{18}{32}$ to yield 6.45 per cent. At the short end the two-year note lost $\frac{1}{32}$ to 99¾, yielding 5.676 per cent. The December 30-year bond future fell by ¼ to 114$\frac{15}{32}$.

The yield curve that traces the spread between the yield on the two-year note and the 30-year long bond flattened by one basis point to 77 points.

The dollar lost ground against the D-Mark and the yen after the Commerce Department reported that the US trade deficit widened to $11.3bn in September from $10.3bn in August. Economist had expected the deficit to have narrowed to $9.5bn.

By early afternoon the US currency was changing hands at DM1.4958 and Y111.21 compared with DM1.5056 and Y111.63 late on Tuesday.

Bonds fell in tandem with the dollar even though the trade data suggested that the economy was weaker then many economists had thought. Economists from Merrill Lynch revised their estimate of third-quarter gross domestic product growth to 1.5 per cent from 2.2 per cent based on the trade figures.

Also weighing on bonds was new supply set to come to the market from the afternoon auction of $12.5bn in five-year notes. Existing five-year notes were off $\frac{1}{32}$ at 101¼ with a yield of 5.946 per cent.

Demand was tepid at Tuesday's auction of $18.25bn in two-year notes.

Catex and Bermuda SE in risk venture

By Samer Iskandar

The Bermuda Stock Exchange and the Catastrophe Risk Exchange yesterday announced plans to establish a new risk exchange in Bermuda.

Catex – a computerised exchange operating under licence from the Insurance Commissioner in New York State – offers members an electronic service allowing them to exchange risk exposure. The Bermudan venture aims to offer similar services to international participants not necessarily licensed in New York.

"Catex will give a real-time indication of how much insurers are paying for a particular risk," said Mr Frank Fortunato, chief executive of Catex in New York.

In addition to reaching new members, Mr William Woods, chief executive of the Bermuda exchange, also hopes to widen the product base of Catex. "The next step", he said, "will be to offer sectoral indices on products such as marine and aviation insurance."

● DTB, the German derivatives arm of Deutsche Börse, said the launch of its new futures on one-month interest rates on the D-Mark had exceeded expectations.

"We are well over the level of 2,000 contracts we had expected", said Mr Jörg Franke, general manager.

Since the contract was launched a week ago, average daily volume of trading has topped 3,500 contracts.

Today, a similar contract will start trading on Liffe, the London futures and options exchange, which is already the leading market for trading in futures and options on 3-month D-Mark interest rates.

Decks cleared for Russian debut

INTERNATIONAL BONDS

By Conner Middelmann

Market participants were clearing the decks yesterday for the launch of Russia's inaugural eurobond, expected as early as today.

Dealers reported strong demand from specialist emerging-market investors as well as mainstream bond fund managers for the paper, which is expected to have a maturity of five years and offer a yield pick-up of around 350 basis points over US Treasuries. J.P. Morgan and SBC Warburg are acting as joint lead managers.

"Russia has very similar credit ratings to Argentina, but while Argentina has raised around $10bn in the international markets this year alone, Russia has real rarity appeal," said an official at another bank.

With heavy oversubscription seen likely, dealers said the issue could be as large as $750m to $1bn – significantly more than the previously mooted $300m to $500m.

A successful Russian deal would bode well for Kazakhstan's forthcoming debut eurobond.

The republic, which was recently awarded credit ratings of Ba3 by Moody's and BB- by Standard & Poor's, is expected to hold an international roadshow after the completion of the Russian deal and launch its bonds in early December.

Elsewhere, MBNA International Bank, the UK subsidiary of MBNA America Bank, issued its third asset-backed bond secured by credit card receivables originated in the UK via a special-purpose vehicle, Chester Asset Receivables Dealings No 3.

The £240m issue was led by J.P. Morgan, which reported strong demand from UK investors as well as clients in continental Europe, where 35 to 40 per cent of the deal was placed, helped by sterling's continued popularity there.

The seven-year floating rate notes were priced at a discounted margin of 12 basis points over Libor, highlighting the continued narrowing of spreads in the asset-backed market.

Cards 1, MBNA's first securitisation in July 1995, paid a margin of 22 basis points over Libor on five-year paper, and Cards 2 was for five-year paper at a margin of 12 basis points – the same spread as yesterday's offering, which is two years longer.

"This trend reflects investors' growing understanding of the product and their willingness to buy it," said a syndicate manager at J.P. Morgan.

In the US market, where asset-backed products are much more established, spreads have tightened dramatically over the past year.

In yen, the Japan Development Bank made its first foray into the euroyen market since October 1992 with a Y50bn offering of government-guaranteed 10-year bonds.

The paper was priced to yield 5 basis points over the benchmark JGB 190, attracting good buying from institutions around Europe, the middle east and non-Japan Asia, lead manager Nomura said.

The Inter-American Development Bank tapped the D-Mark sector for DM500m of five-year paper priced to yield 20 basis points over German government notes.

While this was deemed tight by some dealers, joint leads ABN Amro, CS First Boston and WestLB said the retail-targeted issue was seeing good demand, though it would take a while to place.

Meanwhile, Banco Fonsecas & Burnay, a retail banking subsidiary of Banco Português de Investimento, launched a $100m subordinated, perpetual offering. It marks the first public Upper Tier 2 qualifying eurobond from a Portuguese bank and the first public international subordinated eurobond financing for the BPI group.

Mr Fernando Ulrich, vice-chairman of the bank, said he thought other Portuguese banks might take this financing route in the future.

"In the past, the domestic Portuguese market was able to provide enough finance, but as banks are growing and their capital needs are increasing, they are looking more towards the international markets," he said.

The proceeds of the issue will go towards financing BPI's recent acquisition of Banco Formento Exterior.

New international bond issues

Borrower	Amount m.	Coupon %	Price	Maturity	Fees %	Spread bp	Book-runner
US DOLLARS							
Bco Fonsecas & Burnay(a)‡	100	(a1)	99.745R	undated	0.625R	-	JP Morgan Securities
D-MARKS							
Inter-American Dev Bank	500	4.75	99.648R	Dec 2001	0.25R	+20(5%May01)	ABN Amro/CSFB/WestLB
YEN							
Japan Development Bank	50bn	2.875	100.00R	Dec 2006	0.325R	+5(JGB 190)	Nomura International
STERLING							
CARDS No 3(b)‡	240	(b1)	99.889R	Nov 2003	0.20R	-	JP Morgan Securities
GUILDERS							
DSM	300	6.25	99.26R	Dec 2006	0.425R	+52(I)	ABN Amro Hoare Govett
Kredietbank Intl Group(c)	200	6.375	98.98R	undated	0.75R	+65(I)	Rabobank International
ITALIAN LIRE							
Dresdner Finance(d)	100bn	7.375	101.48	Dec 2006	2.00	-	BCI/BNL

Final terms, non-callable unless stated. Yield spread (over relevant government bond) at launch supplied by lead manager. *Unlisted. ‡ Floating-rate note. R: fixed re-offer price; fees shown at re-offer level. a) Callable from Dec 2001 at par. a1) 3-mth Libor +70bp to Dec 01, then +220bp. b) Chester Asset Receivables Dealings. b1) 3-mth Libor +10bp. c) Callable on 20/12/06 and every 10 yrs at par. If not called coupon is reset at 250bp over 10-yr DSLs. d) L200bn launched Tuesday was increased to L300bn. I) Over interpolated yield.

WORLD BOND PRICES

BENCHMARK GOVERNMENT BONDS

		Coupon	Red Date	Price	Day's change	Yield	Week ago	Month ago
Australia		6.750	11/06	97.4970	+0.070	7.10	7.08	7.61
Austria		5.875	07/06	99.4500	−0.280	5.95	5.96	5.95
Belgium		7.000	05/06	107.0500	−0.200	6.01	6.03	6.09
Canada *		7.000	12/06	106.1000	−0.280	6.18	6.19	6.81
Denmark		8.000	03/06	108.0600	−0.400	6.81	6.80	6.79
France	BTAN	5.500	10/01	102.9212	−0.180	4.84	4.87	4.93
	OAT	6.500	10/06	104.9200	−0.310	5.84	5.88	5.94
Germany Bund		6.250	04/06	102.8700	−0.340	5.84	5.87	6.01
Ireland		8.000	08/06	108.6000	−0.380	6.77	6.89	6.84
Italy		9.500	02/06	112.3300	−0.720	7.62†	7.69	8.11
Japan	No 140	6.600	06/01	121.7175	−0.370	1.63	1.54	1.61
	No 182	3.000	09/05	102.8297	−0.300	2.61	2.65	2.74
Netherlands		8.500	06/06	119.2600	−0.380	5.83	5.84	5.93
Portugal		9.500	02/06	115.9000	−0.300	7.11	7.28	7.51
Spain		8.800	04/06	110.2200	−0.580	7.24	7.39	7.61
Sweden		6.000	02/05	93.2656	−0.470	7.09	7.27	7.14
UK Gilts		8.000	12/00	102-31	−3/32	7.14	7.26	6.76
		7.500	12/06	99-23	−10/32	7.54	7.70	7.46
		9.000	*10/08*	*110-20*	*−11/32*	7.63	7.78	7.59
US Treasury *		6.500	10/06	102-11	−4/32	6.18	6.21	6.59
		6.500	11/26	100-18	−10/32	6.46	6.46	6.86
ECU (French Govt)		7.000	04/06	105.2900	−0.330	6.23	6.29	6.31

London closing, *New York mid-day. Yields: Local market standard.
† Gross (including withholding tax at 12.5 per cent payable by nonresidents)
Prices: US, UK in 32nds, others in decimal. Source: MMS International

US INTEREST RATES

Latest		Treasury Bills and Bond Yields			
		One month	-	Two year	5.71
Prime rate	8¼	Two month	-	Three year	5.82
Broker loan rate	7	Three month	5.17	Five year	5.98
Fed.funds	5$\frac{5}{16}$	Six month	5.28	10-year	6.20
Fed.funds at intervention	-	One year	5.41	30-year	6.47

BOND FUTURES AND OPTIONS

France

■ NOTIONAL FRENCH BOND FUTURES (MATIF) FFr500,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	128.04	127.70	−0.34	128.14	127.60	159,039	164,989
Mar	127.94	127.60	−0.34	128.04	127.50	12,704	51,008
Jun	126.74	126.36	−0.36	126.78	126.34	50	7,032

■ LONG TERM FRENCH BOND OPTIONS (MATIF)

Strike Price	CALLS Nov	Dec	Mar	PUTS Nov	Dec	Mar
124	-	-	-	-	-	0.26
125	2.72	-	-	-	-	0.40
126	-	-	2.18	0.01	0.18	0.63
127	0.73	1.01	1.53	0.08	0.42	0.95
128	0.14	0.46	1.00	0.44	0.86	1.41

Est. vol. total, Calls 23,779 Puts 26,028. Previous day's open int., Calls 183,433 Puts 181,863.

Germany

■ NOTIONAL GERMAN BUND FUTURES (LIFFE)* DM250,000 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	101.27	100.88	−0.31	101.28	100.70	236863	256750
Mar	100.24	99.90	−0.30	100.24	99.75	8877	29538

■ BUND FUTURES OPTIONS (LIFFE) DM250,000 points of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
10050	0.41	0.31	0.56	0.72	0.03	0.91	1.16	1.32
10100	0.08	0.17	0.39	0.53	0.20	1.27	1.49	1.63
10150	0.01	0.09	0.26	0.39	0.63	1.69	1.86	1.99

Est. vol. total, Calls 22935 Puts 29627. Previous day's open int., Calls 230277 Puts 237087

Italy

■ NOTIONAL ITALIAN GOVT. BOND (BTP) FUTURES (LIFFE)* Lira 200m 100ths of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	128.40	127.30	−0.81	128.58	127.11	94430	106918
Mar	127.75	126.47	−0.80	127.75	126.35	3575	7980

■ ITALIAN GOVT. BOND (BTP) FUTURES OPTIONS (LIFFE) Lira200m 100ths of 100%

Strike Price	CALLS Dec	Mar	PUTS Dec	Mar
12700	0.48	1.90	0.18	2.43
12750	0.22	1.68	0.42	2.71
12800	0.08	1.48	0.78	2.99

Est. vol. total, Calls 15089 Puts 8830. Previous day's open int., Calls 205063 Puts 204130

Spain

■ NOTIONAL SPANISH BOND FUTURES (MEFF)

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	111.21	110.58	−0.46	111.45	110.32	123,620	65,965
Mar	110.85	110.10	−0.52	110.90	109.95	879	4,004

UK

■ NOTIONAL UK GILT FUTURES (LIFFE)* £50,000 32nds of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	110-22	110-08	−0-10	110-22	109-31	81739	141132
Mar	109-28	109-18	−0-11	109-28	109-11	8142	14548

■ LONG GILT FUTURES OPTIONS (LIFFE) £50,000 64ths of 100%

Strike Price	CALLS Dec	Jan	Feb	Mar	PUTS Dec	Jan	Feb	Mar
110	0-27	0-49	1-11	1-28	0-11	1-13	1-39	1-56
111	0-03	0-26	0-50	1-01	0-51	1-54	2-14	2-29
112	0	0-13	0-32	0-45	1-48	2-41	2-60	3-09

Est. vol. total, Calls 11889 Puts 7721. Previous day's open int., Calls 83732 Puts 41924

Ecu

■ ECU BOND FUTURES (MATIF) ECU100,000

	Open	Sett price	Change	High	Low	Est. vol.	Open int.
Dec	95.30	95.02	−0.28	95.36	94.94	1,633	7,923
Mar	94.52	94.58	−0.26	94.52	94.52	150	26

US

■ US TREASURY BOND FUTURES (CBT) $100,000 32nds of 100%

	Open	Latest	Change	High	Low	Est. vol.	Open int.
Dec	115-07	114-28	−0-11	115-11	114-22	254,117	372,386
Mar	114-26	114-15	−0-11	114-30	114-11	5,227	72,708
Jun	113-31	113-30	−0-13	114-02	113-28	58	10,193

Japan

■ NOTIONAL LONG TERM JAPANESE GOVT. BOND FUTURES (LIFFE) Y100m 100ths of 100%

	Open	Close	Change	High	Low	Est. vol	Open int.
Dec	124.85			125.00	124.72	3520	n/a
Mar	123.98			124.00	123.84	1536	n/a

* LIFFE futures also traded on APT. All Open interest figs. are for previous day.

FTSE Actuaries Govt. Securities — UK Indices

Price Indices UK Gilts	Wed Nov 20	Day's change %	Tue Nov 19	Accrued interest	xd adj. ytd		Low coupon yield Nov 20	Nov 19	Yr. ago	Medium coupon yield Nov 20	Nov 19	Yr. ago	High coupon yield Nov 20	Nov 19	Yr. ago
1 Up to 5 years (21)	120.76	−0.04	120.80	2.15	8.90	5 yrs	7.21	7.18	7.20	7.26	7.23	7.20	7.31	7.28	7.28
2 5-15 years (18)	149.94	−0.20	150.24	3.11	9.84	15 yrs	7.73	7.68	7.84	7.69	7.66	7.88	7.73	7.68	7.96
3 Over 15 years (9)	169.50	−0.26	169.95	4.51	9.83	20 yrs	7.80	7.76	7.90	7.76	7.72	7.92	7.78	7.74	7.99
4 Irredeemables (6)	191.35	−0.48	192.27	0.82	13.47	Irred.†	7.85	7.81	8.02						
5 All stocks (53)	144.31	−0.15	144.53	2.99	9.64										

Index-linked							Inflation 5% Nov 20	Nov 19	Yr. ago	Inflation 10% Nov 20	Nov 19	Yr. ago
6 Up to 5 years (2)	202.69	−0.08	202.85	0.81	5.28	Up to 5 yrs	3.16	3.13	2.78	2.48	2.43	1.58
7 Over 5 years (10)	195.34	−0.26	195.84	1.19	4.71	Over 5 yrs	3.51	3.49	3.56	3.30	3.28	3.38
8 All stocks (12)	195.06	−0.24	195.52	1.15	4.69							

Average gross redemption yields are shown above. Coupon Bands: Low: 0%-7¾%; Medium: 8%-10¾%; High: 11% and over. † Flat yield. ytd Year to date.
Gross Redemption Yields for Index-Linked Indices have been amended for period 13 Sept 96 to 9 Oct 96. For details fax FTSE International Help desk on 0171-448-1834.

FT Fixed Interest Indices

	Nov 20	Nov 19	Nov 18	Nov 15	Nov 14	Yr ago	High*	Low*
Govt. Secs. (UK)	94.28	94.66	94.49	94.10	93.81	94.73	96.34	91.59
Fixed Interest	116.41	116.53	115.85	115.72	115.37	113.33	116.45	110.74

Gilt Edged Activity Indices

	Nov 19	Nov 18	Nov 15	Nov 14	Nov 13
Gilt Edged bargains	118.6	119.9	129.6	109.1	95.1
5-day average	114.5	113.1	107.6	102.5	104.9

 * for 1996. Government Securities high since compilation: 127.4 (09/01/35), low 49.18 (03/01/75). Fixed Interest high since compilation: 133.87 (21/01/94), low 50.53 (03/01/75). Basis 100: Government Securities 15/10/26 and Fixed Interest 1928. SE activity indices rebased 1974.

FT/ISMA INTERNATIONAL BOND SERVICE

Listed are the latest international bonds for which there is an adequate secondary market. Latest prices at 7:10 pm on November 20

	Issued	Bid	Offer	Chg	Yield
U.S. DOLLAR STRAIGHTS					
Abbey Natl Treasury 6½ 03	1000	100⅞	101⅛	−¼	6.32
ABN Amro Bank 7¼ 05	1000	103½	103¾	−¼	6.62
African Dev Bk 7¾ 23	500	102¾	103¼		7.14
Alberta Province 7⅝ 98	1000	103⅛	103⅜	−⅛	5.86
Asian Dev Bank 6¼ 05	750	99⅛	99¼	−⅛	6.48
[illegible]					
Spain 7¼ 03	4000	109	109¼	−⅛	5.51
Volkswagen Intl Fin 7 03	1000	105⅝	105¾	−⅛	5.74
World Bank 5⅞ 03	3000	102½	102⅝	−⅛	5.43
World Bank 6⅛ 02	3000	104¾	104¾	−⅛	5.16
World Bank 7⅛ 05	3000	108⅛	108⅛	−¼	5.86
SWISS FRANC STRAIGHTS					
[illegible]					
Abbey Natl Treasury 8 03 £	1000	101¼	101⅜	−⅛	7.73
British Land 8⅞ 23 £	150	96	96¼	−⅛	9.49
Denmark 6¾ 98 £	800	99⅜	99½	−⅛	7.11
Depfa Finance 7⅞ 03 £	500	96¾	97	−¼	7.74
EIB 8 03 £	1000	102⅜	102½	−⅛	7.51
Glaxo Wellcome 8¾ 05 £	500	104⅜	104⅝	−¼	8.05
[illegible]					

UK GILTS PRICES

[illegible]

CURRENCIES AND MONEY

Dollar falls on rising US trade deficit

MARKETS REPORT

By Simon Kuper

The dollar closed below the key psychological level of DM1.50 against the D-Mark in London yesterday, forced down by weak US trade figures and signs that the German economic recovery is continuing.

The US currency closed half a pfennig lower in London at DM1.498. Its slide could have been worse but for the market's belief that the Bundesbank was prepared to talk the currency back up again. The central bank's council members, who meet today, have spoken out recently whenever the dollar has dropped below DM1.50. But most currency traders dismissed rumours that the Bundesbank had enquired about dollar/D-Mark prices, supposedly as a prelude to intervening in support of the dollar.

The D-Mark also gained from tough talk on European monetary union by Mr Reimut Jochimsen, Bundesbank council member. He said that if countries met Emu targets by means of fudging or downright cheating, it would not count.

Yet the German currency lost L7 against the lira, closing at L1,000 on a report in the French newspaper *Le Monde* on Tuesday which said Germany and France were angry over the Bank of Italy's recent sales of lira. The Italian central bank is thought to want to keep its currency weaker than L1,005 before Italy enters the European exchange rate mechanism, probably on one of the next weekends. *Le Monde* said France and Germany sought a lira entry rate of about L950 to the D-Mark.

The pound initially gained on strong UK retail sales figures. But it later fell on profit-taking, and was dragged down against the D-Mark by the dollar's slide. It closed 0.2 cents stronger against the dollar but 0.6 pfennigs weaker against the D-Mark.

The dollar lost Y0.2 against the yen, closing in London at Y111.2.

■ Yesterday's German and US data taken together bode ill for the dollar.

Last month the market feared that Germany's economic recovery was faltering. But yesterday's strong Ifo survey of business confidence and fast German M3 growth reassured the market that the recovery continues.

Meanwhile US data showed a ten per cent rise in the trade deficit when most analysts had expected it to shrink. The dollar's climb over the last year and a half has hurt US exporters. Mr Paul Meggyesi, senior currency economist at Deutsche Morgan Grenfell in London, said that the dollar had recently been propped up through buying by foreign central banks. There was insufficient private sector appetite for US assets to sustain the currency, he said. If US exporters began to call more loudly for a weaker dollar, President Clinton could approve of it falling.

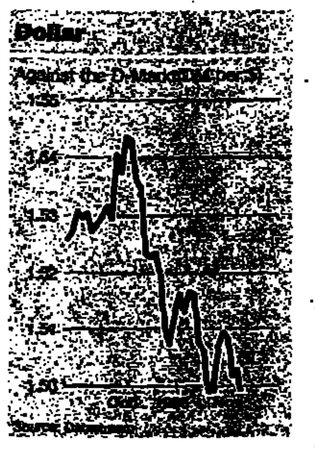
Currency strategists said the Bundesbank may now stop trying to keep the dollar stronger than DM1.50. Mr Meggyesi said that since economic fundamentals now seem to warrant a fall in the dollar, the Bundesbank may allow a fall to happen. The bank would only try to stop currency movements that were merely speculative, he said.

Mr Kit Juckes, currency strategist at NatWest Markets in London, said yesterday: "Today it looks as if the dollar has seen its high for the year already." Traders would continue selling the currency, testing to see how low the Bundesbank would accept it falling, he said. "If no Buba official says anything quite soon there is a risk of a spike downwards."

■ The French franc fell only marginally after Mr Valery Giscard d'Estaing, the former French president, called for a depreciation.

He said France should fix the franc against the future single European currency at a rate of FFr7 per euro. This corresponds to a rate of FFr3.65 to the D-Mark, compared with FFr3.38 today. A depreciation would revive the French economy, he said.

The market expects Paris to stay with the *franc fort* policy. But with other voices also calling for a depreciation, the former president has at least alerted traders to look for signs of change. The Bank of France is due to replace two members of its policy making council at the end of the year. Just possibly, it too could shift its stance in the debate.



■ Pound in New York

Nov 20	—Latest—	— Prev. close —
£ spot	1.6765	1.6750
1 mth	1.6755	1.6740
3 mth	1.6736	1.6715
1 yr	1.6568	1.6557

■ OTHER CURRENCIES

Nov 20	£	$
Czech Rp	44.6676 - 44.7224	26.6370 - 26.6570
Hungary	259.852 - 260.060	154.960 - 155.010
Iran	5033.10 - 5030.70	3000.00 - 3000.00
Kuwait	0.4999 - 0.5010	0.2981 - 0.2986
Poland	4.7029 - 4.7085	2.8045 - 2.8065
Russia	9214.57 - 9222.32	5495.00 - 5497.00
U.A.E.	6.1542 - 6.1578	3.6700 - 3.6704

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POUND SPOT FORWARD AGAINST THE POUND

Nov 20		Closing mid-point	Change on day	Bid/offer spread	Day's Mid high	Day's Mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	Bank of Eng. Index
Europe													
Austria	(Sch)	17.6782	-0.0395	698 - 866	17.7678	17.6634	17.6347	3.0	17.5782	2.3	-	-	104.8
Belgium	(BFr)	51.7657	-0.1225	407 - 906	52.0270	51.7300	51.6407	2.9	51.3767	3.0	50.1807	3.1	105.9
Denmark	(DKr)	9.6499	-0.02	459 - 538	9.7007	9.6396	9.63	2.5	9.5894	2.5	9.4105	2.5	107.3
Finland	(FM)	7.5754	-0.0138	673 - 835	7.6110	7.5640	-	-	-	-	-	-	84.4
France	(FFr)	8.4965	-0.0186	928 - 002	8.5343	8.4888	8.4775	2.7	8.4336	2.7	8.2601	2.8	108.6
Germany	(DM)	2.5120	-0.0057	110 - 130	2.5263	2.5088	2.5059	2.9	2.4931	3.0	2.4367	3.0	108.0
Greece	(Dr)	396.564	-1.462	319 - 810	399.228	395.960	-	-	-	-	-	-	67.3
Ireland	(I£)	0.9966	-0.0018	958 - 974	0.9991	0.9955	0.9963	0.4	0.9958	0.5	0.9886	0.8	101.7
Italy	(L)	2511.78	-24.12	032 - 319	2537.37	2508.95	2515.58	-1.8	2523.06	-1.8	2527.56	-0.6	77.3
Luxembourg	(LFr)	51.7657	-0.1225	407 - 906	52.0270	51.7300	51.6407	2.9	51.3757	3.0	50.1807	3.1	105.9
Netherlands	(Fl)	2.8177	-0.0064	162 - 192	2.8336	2.8150	2.8105	3.1	2.7955	3.2	2.7306	3.1	106.0
Norway	(NKr)	10.5881	-0.0248	839 - 923	10.6614	10.5408	10.5756	1.4	10.5556	1.2	10.4506	1.3	99.5
Portugal	(Es)	253.725	-0.736	581 - 870	255.232	253.599	253.92	-0.9	254.29	-0.9	-	-	95.9
Spain	(Pta)	211.273	-0.594	206 - 340	212.633	211.122	211.438	-0.9	211.668	-0.7	211.668	-0.2	80.1
Sweden	(SKr)	11.0760	-0.0112	670 - 849	11.1200	11.0684	11.0748	0.1	11.0722	0.1	11.0596	0.1	88.7
Switzerland	(SFr)	2.1232	-0.0012	221 - 243	2.1334	2.1204	2.1156	4.3	2.1006	4.3	2.0339	4.2	107.5
UK	(£)	-	-	-	-	-	-	-	-	-	-	-	92.0
Ecu	-	1.3072	-0.0094	065 - 079	1.3139	1.3062	1.3053	1.8	1.3008	1.9	1.2793	2.1	-
SDR†	-	1.147848	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	1.6771	+0.002	766 - 775	1.6820	1.6748	-	-	-	-	-	-	-
Brazil	(R$)	1.7267	+0.0035	260 - 294	1.7316	1.7248	-	-	-	-	-	-	-
Canada	(C$)	2.2509	+0.0029	499 - 518	2.2562	2.2487	2.2458	2.7	2.2349	2.8	2.1759	3.3	85.7
Mexico	(New Peso)	13.2339	-0.001	224 - 454	13.2535	13.2185	-	-	-	-	-	-	-
USA	($)	1.6773	+0.002	769 - 777	1.6820	1.6745	1.6763	0.7	1.6736	0.9	1.6571	1.2	95.9
Pacific/Middle East/Africa													
Australia	(A$)	2.0973	-0.0128	961 - 984	2.1143	2.0957	2.0986	-0.7	2.0993	-0.4	2.0989	-0.1	93.7
Hong Kong	(HK$)	12.9691	+0.0153	656 - 726	13.0044	12.9482	12.9618	0.7	12.9479	0.7	12.8833	0.7	-
India	(Rs)	59.7958	+0.0712	976 - 939	60.0220	59.6710	-	-	-	-	-	-	-
Israel	(Shk)	5.4141	-	100 - 181	5.4282	5.4090	-	-	-	-	-	-	-
Japan	(Y)	186.466	-0.095	354 - 577	187.400	186.270	185.576	5.7	183.716	5.9	175.686	5.8	130.0
Malaysia	(M$)	4.2266	+0.0014	249 - 286	4.2370	4.2213	-	-	-	-	-	-	-
New Zealand	(NZ$)	2.3616	+0.0098	602 - 630	2.3664	2.3463	2.3688	-3.4	2.3778	-2.7	2.3986	-1.6	110.9
Philippines	(Peso)	44.0124	+0.0357	935 - 312	44.1270	43.9873	-	-	-	-	-	-	-
Saudi Arabia	(SR)	6.2907	+0.0074	889 - 925	6.3080	6.2819	-	-	-	-	-	-	-
Singapore	(S$)	2.3507	+0.0058	493 - 521	2.3589	2.3451	-	-	-	-	-	-	-
South Africa	(R)	7.8246	+0.0587	185 - 307	7.8398	7.7487	-	-	-	-	-	-	-
South Korea	(Won)	1390.99	+8.03	049 - 148	1394.71	1388.98	-	-	-	-	-	-	-
Taiwan	(T$)	46.1256	+0.055	812 - 703	46.2449	46.0591	-	-	-	-	-	-	-
Thailand	(Bt)	42.6110	+0.0281	966 - 253	42.7380	42.5750	-	-	-	-	-	-	-

† Rates for Nov 19. Bid/offer spreads in the Pound Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. Sterling index calculated by the Bank of England. Base average 1990 = 100. Index rebased 1/2/95. Bid, Offer and Mid-rates in both this and the Dollar Spot tables derived from THE WM/REUTERS CLOSING SPOT RATES. Some values are rounded by the F.T.

DOLLAR SPOT FORWARD AGAINST THE DOLLAR

Nov 20		Closing mid-point	Change on day	Bid/offer spread	Day's mid high	Day's mid low	One month Rate	One month %PA	Three months Rate	Three months %PA	One year Rate	One year %PA	J.P Morgan index
Europe													
Austria	(Sch)	10.5397	-0.0382	372 - 422	10.5950	10.5300	10.525	1.7	10.4797	2.3	10.2847	2.4	104.6
Belgium	(BFr)	30.8625	-0.11	550 - 700	31.0250	30.8400	30.8025	2.3	30.675	2.4	30.135	2.4	105.6
Denmark	(DKr)	5.7532	-0.0188	522 - 542	5.7812	5.7472	5.7443	1.9	5.7259	1.9	5.6442	1.9	106.7
Finland	(FM)	4.5165	-0.0135	127 - 202	4.5397	4.5125	4.5077	2.3	4.4889	2.4	4.4065	2.4	83.9
France	(FFr)	5.0656	-0.0172	646 - 666	5.0890	5.0604	5.0572	2.0	5.0393	2.1	4.9636	2.0	108.3
Germany	(DM)	1.4977	-0.0061	974 - 979	1.5060	1.4957	1.4948	2.3	1.4889	2.4	1.4641	2.2	107.5
Greece	(Dr)	236.430	-1.155	340 - 520	238.070	236.030	237.985	-7.9	240.555	-7.0	251.58	-6.4	66.9
Ireland	(I£)	1.6830	+0.005	820 - 840	1.6848	1.6775	1.6825	0.3	1.6822	0.2	1.6793	0.2	-
Italy	(L)	1497.50	-16.19	700 - 800	1515.57	1495.20	1500.67	-2.5	1507.1	-2.6	1520.15	-1.5	76.4
Luxembourg	(LFr)	30.8825	-0.11	550 - 700	31.0250	30.8400	30.8025	2.3	30.675	2.4	30.135	2.4	105.6
Netherlands	(Fl)	1.6799	-0.0058	794 - 804	1.6893	1.6778	1.6761	2.7	1.6681	2.8	1.6325	2.8	105.6
Norway	(NKr)	6.3126	-0.0223	116 - 136	6.3580	6.2780	6.3088	0.7	6.3032	0.6	6.2776	0.6	98.9
Portugal	(Es)	151.270	-0.62	220 - 320	152.210	151.150	151.475	-1.6	151.77	-1.3	152.545	-0.8	95.9
Spain	(Pta)	125.960	-0.505	950 - 970	126.800	125.850	126.14	-1.7	126.4	-1.4	127.065	-0.9	79.9
Sweden	(SKr)	6.6035	-0.0145	997 - 072	6.6315	6.5981	6.6007	0.5	6.5909	0.8	6.5435	0.9	86.6
Switzerland	(SFr)	1.2659	-0.0022	655 - 662	1.2722	1.2638	1.2621	3.6	1.2543	3.7	1.2214	3.5	107.1
UK	(£)	1.6773	+0.002	769 - 777	1.6820	1.6745	1.6763	0.7	1.6736	0.9	1.6571	1.2	92.1
Ecu	-	1.2831	+0.0048	827 - 835	1.2846	1.2767	1.2844	-1.3	1.2875	-1.4	1.3041	-1.6	-
SDR†	-	0.685665	-	-	-	-	-	-	-	-	-	-	-
Americas													
Argentina	(Peso)	0.9999	-	998 - 999	0.9999	0.9998	-	-	-	-	-	-	-
Brazil	(R$)	1.0307	+0.0009	305 - 308	1.0309	1.0302	-	-	-	-	-	-	-
Canada	(C$)	1.3420	+0.0001	417 - 422	1.3422	1.3401	1.3397	2.1	1.3346	2.2	1.3071	2.6	85.0
Mexico	(New Peso)	7.8900	-0.01	850 - 950	7.8950	7.8850	8.008	-17.9	8.2745	-19.5	9.135	-15.8	-
USA	($)	-	-	-	-	-	-	-	-	-	-	-	97.1
Pacific/Middle East/Africa													
Australia	(A$)	1.2504	-0.0091	500 - 508	1.2524	1.2470	1.2519	-1.4	1.2538	-1.1	1.2593	-0.7	95.0
Hong Kong	(HK$)	7.7322	-	319 - 324	7.7325	7.7317	7.7321	0.0	7.7326	0.0	7.7437	-0.1	-
India	(Rs)	35.6500	-	000 - 000	35.7250	35.5950	35.865	-7.2	36.325	-7.6	-	-	-
Israel	(Shk)	3.2279	-0.0038	262 - 295	3.2326	3.2260	-	-	-	-	-	-	-
Japan	(Y)	111.170	-0.19	130 - 210	111.720	110.950	110.695	5.1	109.69	5.3	105.49	5.1	130.2
Malaysia	(M$)	2.5200	-0.0022	195 - 205	2.5235	2.5185	2.5229	-1.4	2.5282	-1.3	2.5495	-1.2	-
New Zealand	(NZ$)	1.4080	+0.0042	075 - 085	1.4087	1.4069	1.4135	-4.7	1.4178	-2.8	1.4493	-2.9	111.1
Philippines	(Peso)	26.2400	-0.01	350 - 450	26.2450	26.2350	-	-	-	-	-	-	-
Saudi Arabia	(SR)	3.7505	-	503 - 507	3.7508	3.7502	3.7508	-0.1	3.7512	-0.1	3.7531	-0.1	-
Singapore	(S$)	1.4015	+0.0015	010 - 020	1.4035	1.4000	1.3993	1.8	1.3947	1.9	1.3735	2.0	-
South Africa	(R)	4.6650	+0.0295	625 - 675	4.6680	4.6250	4.7057	-10.5	4.7807	-9.9	5.0855	-9.2	-
South Korea	(Won)	829.300	+3.8	200 - 400	829.600	829.200	-	-	-	-	-	-	-
Taiwan	(T$)	27.5000	-	800 - 200	27.5310	27.4780	27.5001	0.0	27.5003	0.0	-	-	-
Thailand	(Bt)	25.4045	-0.013	020 - 070	25.4310	25.4000	25.4945	-4.3	25.652	-4.1	26.2985	-3.5	-

† SDR rate per $ for Nov 19. Bid/offer spreads in the Dollar Spot table show only the last three decimal places. Forward rates are not directly quoted to the market but are implied by current interest rates. UK, Ireland & ECU are quoted in US currency. J.P. Morgan nominal indices Nov 19: Base average 1990=100.

WORLD INTEREST RATES

MONEY RATES

November 20	Over night	One month	Three mths	Six mths	One year	Lomb. inter.	Dis. rate	Repo rate
Belgium	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	6.00	2.50	-
France	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.20	-	4.75
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	3.20	-	4.75
Germany	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	4.50	2.50	3.00
Ireland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	-	6.25
Italy	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.00	7.50	8.06
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	9.00	7.50	8.06
Netherlands	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	3.00	3.30
Switzerland	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	1.00	-
US	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	5.00	-
Japan	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
week ago	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	-	0.50	-
■ $ LIBOR FT London								
Interbank Fixing	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
US Dollar CDs	-	5.13	5.09	5.12	5.24	-	-	-
week ago	-	5.13	5.08	5.14	5.25	-	-	-
ECU Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
SDR Linked Ds	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-
week ago	-	[illegible]	[illegible]	[illegible]	[illegible]	-	-	-

$ LIBOR interbank fixing rates are offered rates for $10m quoted to the market by four reference banks at 11am each working day. The banks are: Bankers Trust, Bank of Tokyo Mitsubishi, Barclays and National Westminster. Mid rates are shown for the domestic Money Rates, US$ CDs, ECU & SDR Linked Deposits (Ds).

EURO CURRENCY INTEREST RATES

Nov 20	Short term	7 days notice	One month	Three months	Six months	One year
Belgian Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Danish Krone	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
D-Mark	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dutch Guilder	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
French Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portuguese Esc.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spanish Peseta	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Swiss Franc	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Can. Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
US Dollar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Italian Lira	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Yen	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Asian $Sing	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Short term rates are call for the US Dollar and Yen, others: two days' notice.

■ THREE MONTH PIBOR FUTURES (MATIF) Paris interbank offered rate

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.52	96.51	-0.01	96.53	96.49	11,548	46,671
Mar	96.48	96.46	-0.02	96.49	96.44	15,015	61,573
Jun	96.45	96.40	-0.03	96.45	96.30	10,271	30,592

■ THREE MONTH EUROMARK FUTURES (LIFFE)* DM1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	96.79	96.77	-0.02	96.80	96.77	23496	200249
Mar	96.82	96.78	-0.03	96.82	96.77	33686	191543
Jun	96.70	96.66	-0.04	96.70	96.64	45012	158718
Sep	96.53	96.47	-0.06	96.54	96.45	37569	137334

■ THREE MONTH EUROLIRA FUTURES (LIFFE)* L1000m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	92.91	92.86	-0.04	92.93	92.84	10487	66407
Mar	93.62	93.53	-0.04	93.65	93.52	18629	65635
Jun	93.95	93.86	-0.04	93.97	93.85	7480	43229
Sep	94.10	93.99	-0.06	94.11	93.97	3308	25668

■ THREE MONTH EURO SWISS FRANC FUTURES (LIFFE) SFr1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	98.01	97.92	-0.08	98.01	97.89	5869	27483
Mar	97.99	97.89	-0.10	98.00	97.86	6233	32889
Jun	97.82	97.71	-0.11	97.82	97.68	1761	17087
Sep	97.55	97.47	-0.11	97.55	97.43	836	6557

■ THREE MONTH EUROYEN FUTURES (LIFFE) Y100m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	-	99.44	-	-	-	0	n/a
Mar	-	99.36	-	-	-	0	n/a
Jun	99.19	99.19	-0.02	99.19	99.18	60	n/a

■ THREE MONTH ECU FUTURES (LIFFE) Ecu1m points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	95.85	95.84	-0.02	95.86	95.82	806	7972
Mar	95.85	95.85	-0.01	95.86	95.83	481	6073
Jun	95.82	95.83	-0.02	95.83	95.82	196	3481
Sep	95.73	95.74	-0.02	95.74	95.72	217	3132

* LIFFE futures also traded on APT

CROSS RATES AND DERIVATIVES

EXCHANGE CROSS RATES

Nov 20		BFr	DKr	FFr	DM	I£	L	Fl	NKr	Es	Pta	SKr	SFr	£	C$	$	Y	Ecu
Belgium	(BFr)	100	18.64	16.41	4.852	1.926	4852	5.443	20.46	490.1	408.2	21.40	4.101	1.932	4.350	3.239	360.2	2.525
Denmark	(DKr)	53.65	10	8.805	2.603	1.033	2603	2.920	10.97	262.9	219.0	11.48	2.200	1.036	2.334	1.738	193.3	1.354
France	(FFr)	60.93	11.36	10	2.956	1.173	2956	3.316	12.46	298.6	248.7	13.04	2.499	1.177	2.650	1.974	219.5	1.538
Germany	(DM)	20.61	3.842	3.383	1	0.397	1000	1.122	4.216	101.0	84.12	4.411	0.845	0.398	0.896	0.668	74.24	0.520
Ireland	(I£)	51.93	9.679	8.523	2.520	1	2520	2.826	10.62	254.5	211.9	11.11	2.129	1.003	2.259	1.682	187.1	1.311
Italy	(L)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1000	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Netherlands	(Fl)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Norway	(NKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Portugal	(Es)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Spain	(Pta)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sweden	(SKr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	10	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Switzerland	(SFr)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
UK	(£)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1	[illegible]	[illegible]	[illegible]	[illegible]
Canada	(C$)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1	[illegible]	[illegible]	[illegible]
US	($)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1	[illegible]	[illegible]
Japan	(Y)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	100	[illegible]
Ecu		[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	1

Danish Kroner, French Franc, Norwegian Kroner, and Swedish Kronor per 10; Belgian Franc, Yen, Escudo, Lira and Peseta per 100.

■ D-MARK FUTURES (IMM) DM 125,000 per DM

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ SWISS FRANC FUTURES (IMM) SFr 125,000 per SFr

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ JAPANESE YEN FUTURES (IMM) Yen 12.5 per Yen 100

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

■ STERLING FUTURES (IMM) £62,500 per £

	Open	Latest	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

UK INTEREST RATES

LONDON MONEY RATES

Nov 20	Over-night	7 days notice	One month	Three months	Six months	One year
Interbank Sterling	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sterling CDs	-	-	[illegible]	[illegible]	[illegible]	[illegible]
Treasury Bills	-	-	[illegible]	[illegible]	-	-
Bank Bills	-	-	[illegible]	[illegible]	[illegible]	-
Local authority deps.	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Discount Market deps	[illegible]	[illegible]	-	-	-	-

UK clearing bank base lending rate 6 per cent from October 30, 1996

	Up to 1 month	1-3 month	3-6 months	6-9 months	9-12 months
Certs of Tax dep. (£100,000)	[illegible]	[illegible]	5	5	[illegible]

[illegible]

■ THREE MONTH STERLING FUTURES (LIFFE) £500,000 points of 100%

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Mar	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Jun	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Sep	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Dec	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

Also traded on APT. All Open interest figs. are for previous day.

■ SHORT STERLING OPTIONS (LIFFE) £500,000 points of 100%

[illegible]

BASE LENDING RATES

[illegible]

■ EMS EUROPEAN CURRENCY UNIT RATES

[illegible]

■ PHILADELPHIA SE £/$ OPTIONS £31,250 (cents per pound)

[illegible]

■ THREE MONTH EURODOLLAR (IMM) $1m points of 100%

[illegible]

■ US TREASURY BILL FUTURES (IMM) $1m per 100%

[illegible]

■ EUROMARK OPTIONS (LIFFE) DM1m points of 100%

[illegible]

■ EURO SWISS FRANC OPTIONS (LIFFE) SFr 1m points of 100%

[illegible]

■ EUROLIRA OPTIONS (LIFFE) L1000m points of 100%

[illegible]

The Financial Times plans to publish a Survey on Thailand on Thursday, December 5

As the world's longest-reigning monarch celebrates his 50th anniversary, the Financial Times reviews the political and economic situation in Thailand today: private sector growth, property initiatives, development of the Mekong hub and the economic mainstay of tourism.

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FT Surveys

COMMODITIES AND AGRICULTURE

Copper price retreats in late trading

MARKETS REPORT

By Kenneth Gooding and Deborah Hargreaves

Copper prices on the London Metal Exchange yesterday rose to a fresh five-month peak of $2,240 a tonne.

Traders said business was light, with little physical demand, and copper eased back to end late trading down $10 at $2,215.

Market tightness eased slightly and the premium for copper for immediate delivery versus three-month metal slipped from $157.50 to $140 a tonne.

"The copper market will continue to face two problems in the months ahead: a shortage of metal readily available for prompt delivery, which will keep nearby prices high; and the likelihood of a substantial oversupply of copper during 1997 because of several new mine openings," said Mr Kerry Smith at First Marathon Securities. "Inevitably, this will keep pressure on the price of metal to be delivered from April 1997 onwards."

Traders suggested that the recent sharp fall in LME copper stocks might have come to an end and stocks could be 20,000 tonnes higher by the year end.

Crude oil and heating oil moved higher yesterday, but trading in other products was mixed, as the market digested conflicting reports about US inventory levels.

Natural gas futures surged for the second day as cold weather continued to dominate traders' minds.

North Sea Brent crude for January delivery rose 25 cents in London to $23.52 a barrel, with December oil futures on the New York Mercantile Exchange up 16 cents by mid-session to $24.65 a barrel.

Figures released by the American Petroleum Institute late on Tuesday showed that crude stocks fell by 3.5m barrels last week, pushing inventory levels to 9.92m barrels below the level of a year ago. But distillate stocks, which include heating oil, where the market has been concerned about shortages, showed a rise of 920,000 barrels against analysts' expectations of a fall of up to 1.5m barrels.

This did not depress prices, however, as traders chose to focus on another report from the Energy Information Administration, which showed distillate stocks down 900,000 barrels to 113.2m barrels.

Propane prices continued to rise, with US Gulf coast spot prices up three cents to 62 cents a gallon as demand remains strong.

Cotton 'under threat from high output'

By Deborah Hargreaves

Excess production in the world cotton market is expected to lead to falling prices in the medium term – to around $1.40 per kg – according to a report to be published today by Rabobank, the Dutch agribusiness bank.

The report says high output over the next two seasons will lead to a build-up in the ratio between stocks and demand to a peak of 42 per cent in 1997–98 from last year's level of 35 per cent.

Increasing stocks and productivity improvements will result in falling real world prices for cotton, the report states, although prices are extremely volatile.

The textile industry has become much more competitive in recent years with new technology and innovation more important factors than low labour costs. Buyers are also looking for better products at lower prices, the report notes.

Chinese production and demand play a large part in determining the direction of world prices, the report notes, with yearly import and export swings expected to reach 900,000 tonnes next year, representing 15 per cent of world trade.

China holds one-third of world stocks, although it is increasing domestic production and cutting imports.

Rabobank forecasts a 15 per cent increase in the world cotton crop by 2000 to 21.4m tonnes from the current 20m tonnes. But while output is set to rise, the report expects acreage under cultivation to stay the same, so most of the growth will come from improved yields.

Average world yield is around 560kg per hectare, but some countries, such as Australia and Israel, are already achieving yields of more than 1,500kg through increased irrigation.

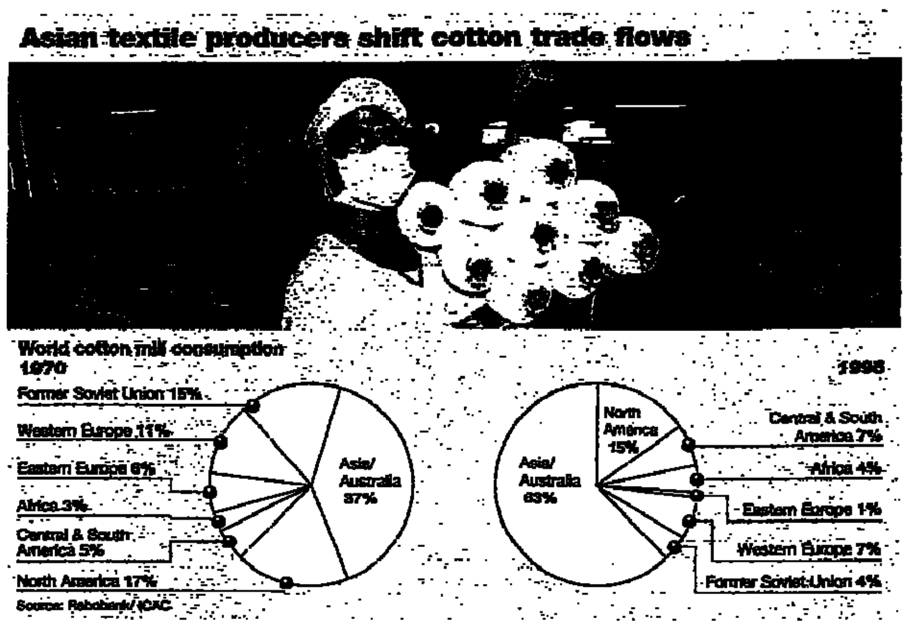
The study points to the problems of disease, particularly for traditional exporters such as Pakistan, but many countries are now pioneering disease-resistant varieties. It also notes a shift in the $10bn of world sales over the past decade, which has reversed traditional trade flows, making the US and Australia net exporters to the developing world.

The shift in trade has been triggered by the growth in importance of Asian countries as textile producers. Indonesia and Thailand are showing the fastest import growth, with deliveries to Hong Kong, Taiwan, South Korea and Japan falling slightly in recent years following a jump in the 1980s.

US production has risen to just over 4m tonnes, some 35 per cent of world trade.

The World Cotton Complex. Rabobank International, Tel 31-30-216-2804, Fax 31-30-216-1976. $90.

Asian textile producers shift cotton trade flows



Record crop to buoy Indian export campaign

By Kunal Bose in Calcutta

Indian farmers campaigning for the abolition of the country's cotton export quotas say their fight will be boosted because the country is heading for a bumper cotton crop for the 1996–97 season.

The powerful farmers lobby says the federal government's quota system is "cumbersome" and claims that dropping it will help farmers get a better price for exports.

The forecast of a bumper crop from this season, which started last month, is based on the record production of 15.65m of 170kg bales achieved in the 1995–96 harvest.

Mr Sanat Mehta, the MP who is spearheading the farmers' campaign, says the free export of cotton will allow farmers to get world prices. Cotton is sold in India at between 10 per cent and 20 per cent less than world prices, depending upon the size of the crop.

The farmers say that, because the duty-free import of cotton is allowed and the raw material is available in abundance to the local textile mills there is no justification for controls on exports. The East India Cotton Association says export quotas are spaced out in such a way that more often than not India fails to realise the best prices in the world market.

The Indian Cotton Mills Federation opposes the liberalisation. Mr M.P. Gajaria, the federation's secretary general, says that if free export of cotton is allowed the best quality cotton will leave the country and overseas buyers will benefit at the cost of the Indian consumer.

"The basic strength of our cotton textile exports lies in the relatively low prices of cotton," he said. "If this advantage is taken away by allowing unrestricted exports of cotton, then our cotton textile exports with a large degree of value addition will suffer a serious setback."

Demand for gold close to 1995 peak

By Kenneth Gooding, Mining Correspondent

Demand for physical gold this year will be close to the 1995 record, according to the World Gold Council, a promotional organisation financed by some of the world's leading producers.

In 22 markets monitored by the WGC – accounting for about 75 per cent of total world demand – physical off-take reached 2,746 tonnes last year, 7.6 per cent above the previous record in 1992.

The WGC estimated yesterday that demand in the first nine months of this year reached 1,942 tonnes, only 3 per cent below the "exceptional performance" of the same period of 1995.

Mr George Milling-Stanley, the WGC manager, gold market analysis, said the market was now in its period of peak demand as jewellery sales built up because of Christmas in industrialised countries, the Indian wedding season, the Chinese new year and Ramadan in Moslem communities.

Nevertheless, Commodity Exchange statistics showed that US investment funds were "very, very short" of gold at present – having sold gold they did not own in the expectation the price would fall. Three years ago, when funds took similar aggressive positions, gold's price ranged from $325 to $340 a troy ounce. This "floor price" appeared to have shifted up by $50 an ounce, said Mr Milling-Stanley.

● The WGC would spend $80m on its promotional activities in 1997, more than for several years, said Mr Milling-Stanley. The WGC would open its fourth office in India, the biggest gold consuming market, and "extend its promotional reach" with a new force of travelling salesmen.

New Zealand apple grower mounts challenge to regulator

By Terry Hall in Wellington

A New Zealand apple growing company is threatening to uproot all its trees and throw 2,000 people out of work if it is not allowed to export the whole of its crop.

The challenge to the New Zealand Apple and Pear Board's right to control the country's apple exports is the latest in a series by Applefields, of South Island.

The company says it cannot survive as a grower while the board had monopoly powers. Mr Tom Kain, chief executive, says he has agreements with international producers to buy his crop at higher prices than the board is likely to pay.

He says he will tear out the trees and sell 670 hectares on the outskirts of Christchurch for property development if he doesn't get approval to send the apples abroad.

Mr Mike Littlewood, chairman of the New Zealand Pipfruit Growers' Association, accused Mr Kain of blackmail, and said virtually all the other 1,600 growers supported the board. Mr John McCliskie, the board chairman, said Applefields' decision was a matter for its shareholders. The company, which is listed on the New Zealand Stock Exchange, lost NZ$28m (US$19.9m) last year.

Mr McCliskie said the board worked under a parliamentary statute which required it to buy all export fruit and market it, paying an average return to growers, and it did not intend to allow one producer to "cherry pick" a particular market to ensure it got the best returns.

Applefields was last year given permission to export 59,000 cartons of fruit on its own account. It is to face another board hearing next week to decide how much fruit it can export.

COMMODITIES PRICES

BASE METALS

LONDON METAL EXCHANGE

(Prices from Amalgamated Metal Trading)

■ ALUMINIUM, 99.7 PURITY ($ per tonne)

	Cash	3 mths
Close	1476.5-7.5	1497-8
Previous	1429.5-30.5	1453-54
High/low	1487/1486	1510/1481
AM Official	1486.5-7.0	1505.5-6.0
Kerb close		1508-9
Open int.	231,595	
Total daily turnover	91,241	

■ ALUMINIUM ALLOY ($ per tonne)

	Cash	3 mths
Close	1320-30	1350-55
Previous	1290-95	1320-25
High/low	1330	1365/1355
AM Official	1330-35	1355-60
Kerb close		1350-55
Open int.	6,040	
Total daily turnover	1,115	

■ LEAD ($ per tonne)

	Cash	3 mths
Close	690.5-1.5	700-1
Previous	691-2	701.5-2.5
High/low		708/698
AM Official	695-6	704-5
Kerb close		704-5
Open int.	39,096	
Total daily turnover	11,233	

■ NICKEL ($ per tonne)

	Cash	3 mths
Close	6740-50	6845-50
Previous	6765-75	6870-75
High/low		6890/6800
AM Official	6735-45	6840-45
Kerb close		6855-60
Open int.	46,264	
Total daily turnover	12,860	

■ TIN ($ per tonne)

	Cash	3 mths
Close	6075-85	6075-80
Previous	6010-20	6030-35
High/low	6090/6085	6090/6050
AM Official	6086-9	6087-9
Kerb close		6085-90
Open int.	14,955	

Precious Metals continued

■ GOLD COMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	378.9	+0.7	–	–	–	–
Dec	379.0	+0.6	380.4	378.5	21,432	65,508
Feb	381.0	+0.8	382.5	380.3	5,693	30,740
Apr	383.1	+0.9	384.0	382.7	1,426	13,578
Jun	385.3	+0.9	386.3	385.0	111	12,903
Aug	387.5	+0.9	–	–	644	4,877
Total					30,494	175,954

■ PLATINUM NYMEX (50 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Jan	388.2	+1.7	389.0	388.0	1,504	17,475
Apr	390.8	+1.8	392.0	389.5	90	8,491
Jul	393.7	+1.8	395.0	395.0	2	993
Oct	397.0	+1.8	–	–	–	136
Total					1,598	27,095

■ PALLADIUM NYMEX (100 Troy oz.; $/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Dec	119.65	+0.65	120.00	119.30	672	3,730
Mar	120.90	+0.65	121.00	120.25	549	3,885
Jun	122.00	+0.65	–	–	2	237
Dec	123.50	+0.65	–	–	–	–
Total					1,221	7,853

■ SILVER COMEX (5,000 Troy oz.; Cents/troy oz.)

	Sett price	Day's change	High	Low	Vol	Open int
Nov	494.0	+7.4	–	–	10	–
Dec	494.5	+7.2	496.5	486.5	8,657	44,791
Jan	495.4	+7.2	–	–	–	26
Mar	501.7	+7.4	503.5	494.0	5,048	25,522
May	506.1	+7.4	508.0	504.0	79	6,871
Jul	510.7	+7.4	512.0	504.0	68	6,063
Total					14,458	91,682

ENERGY

■ CRUDE OIL NYMEX (1,000 barrels, $/barrel)

	Latest price	Day's change	High	Low	Vol	Open int
Dec	24.48	–0.01	24.95	24.41	43,906	26,256
Jan	24.15	–0.05	24.55	24.08	44,337	88,178
Feb	23.77	–0.10	24.11	23.70	9,724	42,021
Mar	23.28	–0.19	23.68	23.28	3,228	24,956

GRAINS AND OIL SEEDS

SOFTS

MEAT AND LIVESTOCK

LONDON TRADED OPTIONS

LONDON SPOT MARKETS

PRECIOUS METALS

FUTURES DATA

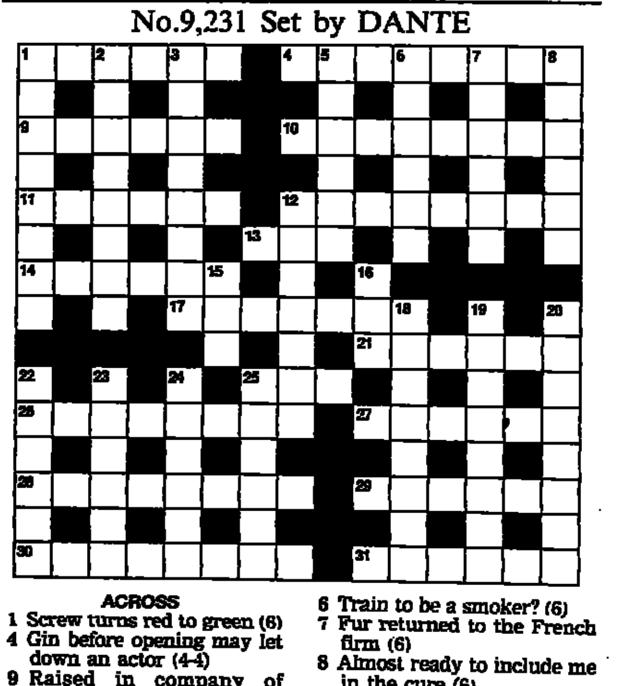
All futures data supplied by CMS.

INDICES

JOTTER PAD

CROSSWORD

No.9,231 Set by DANTE



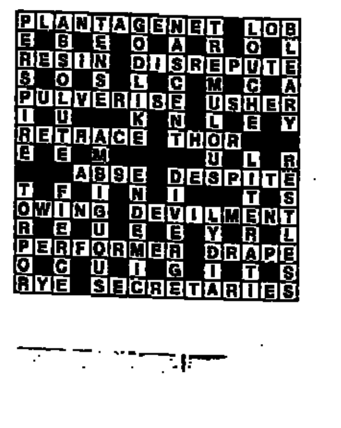
ACROSS

1 Screw turns red to green (6)
4 Gin before opening may let down an actor (4-4)
9 Raised in company of wolves (6)
10 Injury when outside-left is fouled is a break (4-4)
11 A disposition of arms (6)
12 Neat present for daughter (8)
13 One out of two is average (3)
14 Fish cooked inside and covered in oil (6)
17 Just one type of shirt or vest (7)
21 Issue a word of thanks for some music (6)
25 Steal from Roy? (3)
26 Grey is to study Maugham's work (8)
27 Changes which should be made by wrongdoers (6)
28 Transfer worker to deliveries (4,4)
29 Where you may find the sailor, by the way (6)
30 Pennant flown by vessel with monarch aboard (8)
31 Rehearsal for a TT race? (3,3)

DOWN

1 Progressing rapidly, getting fit on holiday (4,4)
2 Went and put it right (8)
3 Ben and Noel's fresh honours (8)
5 If he comes a cropper does he get what he deserves? (6)
6 Train to be a smoker? (6)
7 Fur returned to the French firm (6)
8 Almost ready to include me in the cure (6)
12 Keeps going, or waits (5,2)
15 Appreciate a verbal thrust (3)
16 He may be given the lie (3)
18 It helps to get tight in a private saloon (5,3)
19 You shouldn't miss this store opening (4-4)
20 Handed over and died (6,2)
22 Emotion shown by love in little ways (6)
23 Black eye for a boot-black? (6)
24 Staggering along to a country in Africa (6)
25 Withdraw from the general retreat (6)

Solution 9,230



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OFFSHORE AND OVERSEAS

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Fidelity Currency Funds Ltd

Jupiter Tyndall (Bermuda) Ltd

BERMUDA (REGULATED)(**)

GUERNSEY (SIB RECOGNISED)

M & G (Guernsey) Ltd
Westbourne, The Grange, St Peter Port 01481 722003

	Init Charge	Selling Price	Buying Price	+ or -	Yield Gr's
Island Global Fd	0	1812.7	1927.5	-1.1	0.9
Island Gold	0	4105.8	4352.1	—	0.131
(Accum. Units)	0	[illegible]	[illegible]	—	0.131
Island UK Fd	0	1014	1074.8	-1.8	3.46
(Accum Units)	0	[illegible]	[illegible]	-4.4	3.46

Prudential Fund Managers (Guernsey) Ltd

Rothschild Asset Management (CI) Ltd

GUERNSEY (REGULATED)(**)

IRELAND (SIB RECOGNISED)

IRELAND (REGULATED)(**)

Murray Johnstone (Dublin) Ltd
Europa House, Harcourt St, Dublin 2 3531 407 2000

Odey Asset Management Ltd
60 Harcourt Street, Dublin 2 00 3531 790 2400

Baring Mutual (Ireland) Ltd

Berkshire KDTC Growth Fund Plc

ISLE OF MAN (SIB RECOGNISED)

ISLE OF MAN (REGULATED)(**)

JERSEY (REGULATED)(**)

JERSEY (SIB RECOGNISED)

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Offshore Insurances and Other Funds

OTHER OFFSHORE FUNDS

LONDON SHARE SERVICE

ALCOHOLIC BEVERAGES

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Allied Domecq	♣	448½	-4	535	419	4,804	6.6	13.1
Buckley's (HP)	★	524	-1	625	477	282.0	3.1	17.9
Burn St Dist	★	69xd	+½	146	67½	48.9	6.2	73.3
Glenmorangie A		780		775	615	88.5	2.0	19.5
Grand Met	★‡	404½	-6½	498	411	8,763	4.1	18.7
Guinness	★‡†	438½	-1	495	430	8,482	4.3	13.8
Highland	★	320		378	315	438.6	3.2	15.8
5¾pc Cnv Bds		98¼	-1¼	101½	96½	-	-	-
Kirin Y		842	+8	876¼	624½	8,795	0.8	28.5
Matthew Clark	★‡	273½		909	270	242.0	11.0	13.0
Merrydown	★	108½	-1	147	93	11.9	5.1	10.0
Seagram S		£23⅝	+⅛	£25¾	£20½	8,349	1.3	-

BANKS, MERCHANT

	Notes	Price	+ or -	52 week high	52 week low	Mkt Cap£m	Yld Gr's	P/E
Barings 9pc Cm 2nd Pf		501½		504½	501½	8.31	19.8	-
Cater Allen	♣	395	-1½	402	379	125.8	9.7	11.4
Close Bros	♣	327½	-2½	392	307½	309.1	3.9	13.0
Gerrard & Nat	♣	274½xd		372	360	134.2	10.5	11.2
Hambros		248½	-1	287½	194	438.6	3.8	20.7
7¾pc Cv Pf		119	-½	119	96	141.7	8.5	-
King & Shaxson	‡♣	185		187	115	48.8	6.2	15.7
Leopold J	♣	405		405	405	24.8	5.7	16.8
Rea Brothers	♣	62½		67	44	38.2	2.0	24.6
Schroders	♣†	1472½		1495	1185	2,132	1.5	16.1
N/V	†	1198		1205	880	335.5	1.8	13.5
Singer & Fried	♣†	129	-2½	135	99½	258.8	4.1	9.5
8¼pc Cv Ln 09/14		£161	-½	£155	[illegible]	48.3	5.6	-

BANKS, RETAIL

BREWERIES, PUBS & REST

BUILDING & CONSTRUCTION

BUILDING MATS. & MERCHANTS

CHEMICALS

CHEMICALS - Cont.

DISTRIBUTORS

DIVERSIFIED INDUSTRIALS

ELECTRICITY

ELECTRONIC & ELECTRICAL EQPT

ENGINEERING

ENGINEERING - Cont.

ENGINEERING, VEHICLES

EXTRACTIVE INDUSTRIES

EXTRACTIVE INDUSTRIES - Cont.

FOOD PRODUCERS

FOOD PRODUCERS - Cont.

GAS DISTRIBUTION

HEALTH CARE

HOUSEHOLD GOODS

HOUSEHOLD GOODS - Cont.

INSURANCE

INVESTMENT TRUSTS

INVESTMENT TRUSTS - Cont.

INV TRUSTS SPLIT CAPITAL

LONDON SHARE SERVICE

INV TRUSTS SPLIT CAPITAL - Cont.

OTHER INVESTMENT TRUSTS

INVESTMENT COMPANIES

LEISURE & HOTELS

LIFE ASSURANCE

MEDIA

OIL EXPLORATION & PRODUCTION

OIL, INTEGRATED

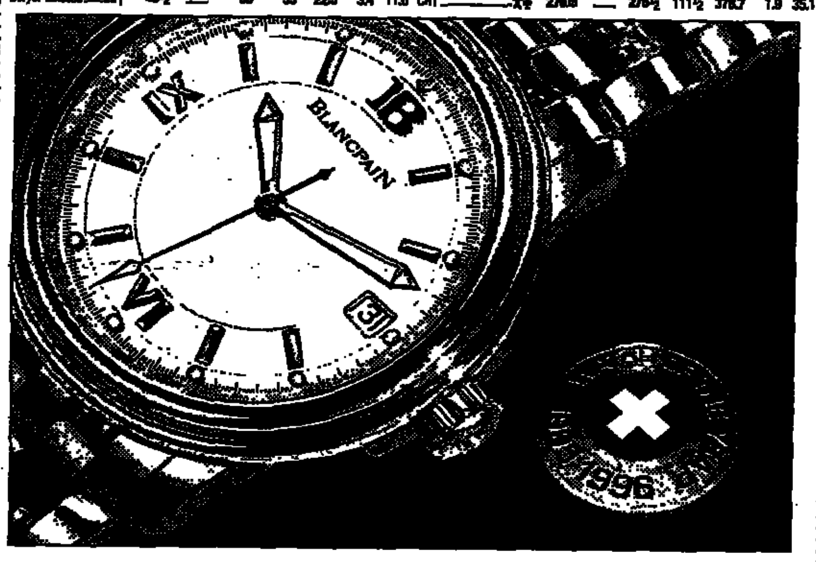
OTHER FINANCIAL

PAPER , PACKAGING & PRINTING

PAPER , PACKAGING & PRINTING - Cont.

PHARMACEUTICALS

PROPERTY



PROPERTY - Cont.

RETAILERS, FOOD

RETAILERS, FOOD - Cont.

RETAILERS, GENERAL

SUPPORT SERVICES

SUPPORT SERVICES - Cont.

TELECOMMUNICATIONS

TEXTILES & APPAREL

TOBACCO

TRANSPORT

WATER

AIM

AIM - Cont.

AMERICANS

CANADIANS

SOUTH AFRICANS

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LONDON STOCK EXCHANGE

Equity market ignores Wall Street push

MARKETS REPORT

By Steve Thompson, UK Stock Market Editor

Disappointing domestic economic news, plus a poor showing by German bunds in the wake of the latest Ifo survey of business confidence and the M3 money supply figures, had a sharp impact on shares in London yesterday.

With gilts always on the back foot there was precious little support for equities. UK institutions are seen as having completed their pre-budget strategy moves and are reluctant to shift their portfolio stances.

London gave an early and rather grudging response to Wall Street's Tuesday night surge, which powered the Dow Jones Industrial Average towards the 6,400 mark. And there was no budging the bearish mood in London during the afternoon, even when the Dow moved past 6,400.

Some UK dealers said they expected London to respond eventually to the rise on Wall Street, which some of the raging bulls see penetrating 6,500 on the Dow in short order and 7,000 in the medium term.

The same dealers warn, however, that any evidence of overheating in the US economy will bring a rapid response from the Federal Reserve, which, they say, would move instantly to hoist US interest rates.

The latest UK economic news was responsible for the early turnaround in London stocks. A 0.4 per cent monthly rise in October retail sales was in line with forecasts and should have caused no problems for investors. But taken along with a higher than expected M4 money supply number, the figures caused extreme unease in the gilts market, which instantly fell away.

Just before the close the 10-year gilt was down around a quarter of a point, and the 20-year issue off some three-eighths, amid worries that another rise in UK interest rates may take place before the election, expected at the start of May next year.

The FTSE 100 index settled 15.3 lower at 3,962.8, not far from the day's low point. The FTSE 250 held up well, however, closing only fractionally off, down 0.1 at 4,400.2. The FTSE SmallCap eased 0.6 to 2,159.8.

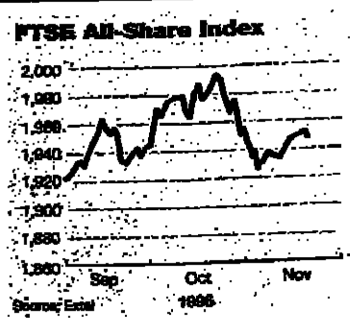
UK stocks also balked at the latest bid developments, which included news that Entergy in the US had terminated talks with London Electricity.

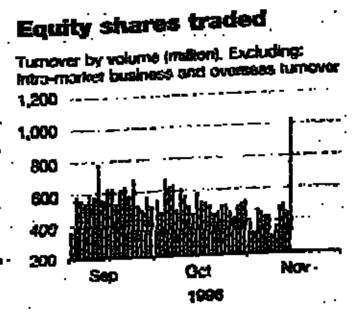
And the bid speculation in British Gas continued to lose momentum. Specialists maintained that the Shell bid rumours had at least highlighted the outstanding value in Gas shares after their year-long mauling.

Railtrack was the best Footsie performer as investors focused on the stock's outstanding asset value; the shares have risen over 75 per cent since their May float.

British Energy, the year's other privatisation stock, was prominent in the FTSE 250 ahead of this morning's maiden interims. Since its July float, shares in British Energy, the only privatisation issue to slide to a discount on its debut, have risen over 40 per cent, compared with a 6.4 per cent rise in Footsie.

Turnover at 6pm was 712.4m. Customer activity on Tuesday only just scrambled over the £1bn-mark, reaching £1.02bn.





Indices and ratios

FTSE 100	3962.8	-15.3	FT 30	2784.9	-12.9
FTSE 250	4400.2	-0.1	FTSE Non-Fins p/e	17.80	17.85
FTSE 350	1974.2	-6.0	FTSE 100 Fut Dec	3982.0	-13.0
FTSE All-Share	1948.57	-5.51	10 yr Gilt yield	7.53	7.49
FTSE All-Share yield	3.85	3.83	Long gilt/equity yld ratio	2.02	2.02

Best performing sectors

1 Distributors .... +0.8
2 Extractive Industries .... +0.7
3 Media .... +0.3
4 Property .... +0.3
5 Retailers: Food .... +0.2

Worst performing sectors

1 Gas Distribution .... -1.6
2 Diversified Industrials .... -1.3
3 Household Goods .... -1.0
4 Paper: Pckg & Print .... -0.9
5 Telecommunications .... -0.9

Sears up on sale hints

By Lisa Wood, Koel Kibazo and Peter John

Sears, which owns Freemans, rose 2¼ to 92½p on rumours that there may be some consolidation in the agency mail order business.

The speculation was that Sears may either sell its Freemans agency mail order business to Pinault Printemps Redoute, the French retailer which owns the former Empire Stores, or else forge a joint venture with it. One analyst also suggested that Otto Versand, the German mail order company, might also be a contender for Freemans. The agency mail order business in the UK, while large, is declining, and analysts said that consolidation would be logical. Pinault Printemps Redoute has said it is keen to develop its overseas earnings. Analysts also said there was speculation that Sears might also pay a special dividend, with the amount of cash available boosted by a deal.

Railtrack peak

Railway operator Railtrack Group was once again in favour and the stock jumped to a record high after NatWest Securities upgraded profit expectations.

The partly paid shares have been one of the best performing stocks of the year, having started trading in May at 200p. Yesterday they gained more than 7 per cent as they rose 23 to 344p, the best performer of the day in solid turnover of 8.5m.

NatWest upgraded its 1997 profits estimate by £5m to £305m and the following year's figure by £10m to £340m and said, "The interim results demonstrated that Railtrack is ahead of expectations in terms of operating performance, cost reduction, property portfolio enhancement and cash generation."

However, the broker retained its "hold" recommendation on the shares saying, "with the rating now at the top end of the utility valuation matrix, share price performance will increasingly be driven by the political cycle."

In the rest of the transport sector, reports suggesting fire damage in the channel tunnel may be worse than expected weighed heavily on Eurotunnel. The shares fell to a six month low as they gave up another 2 to 86p.

Yorkshire hints

News that exploratory talks between London Electricity and Entergy Corporation of the US had been terminated led to a rapid shuffling of prices in the regional electricity sector.

The US group was responding to press reports that it was mulling a £1.2bn bid for the rec. Its comments led to a sharp mark-down in London, followed by a gradual reassessment, as dealers decided that a hostile bid from another company was still a viable possibility. London ended the day only 6¼ off at 658¼p.

The same happened on a smaller scale to East Midlands Electricity, which fell to 607¼p before rallying and closing a penny higher at 611p. However, the principal beneficiary was Yorkshire, which rose 9¼ to 749p. There was a feeling that Entergy might find the northern utility more receptive.

International telecoms group Cable & Wireless was a talking point yesterday as it delivered interim figures in line with market expectations. The shares closed 1½ off at 481½p, following trade of 7.3m, with market talk suggesting the group may be lining itself up for corporate activity.

There were few hints from the group as to the likely nature of that activity although one analyst suggested, "my guess is the management will want to reduce its holding in Hong Kong Telecom from the present 58.63 per cent to below 50 per cent. This would leave Hong Kong Telecom as a Chinese company and allow Cable to explore opportunities on mainland China."

Elsewhere, a two-way pull in Vodafone Group, which reported figures on Tuesday, prompted turnover of 17m. The shares were unchanged at 254p.

Northern Foods hardened 2¼ to 198p following results in line with expectations, with overall profits up by 1 per cent, dairy profits down and other activities up, including prepared foods.

Analysts rejected recent whispers in the market that Northern might sell its dairy activities. One analyst suggested that the rumours might be from a "stale bull" – that is a marketmaker which had been bullish on the stock but, on changing its mind, was now trying to offload its position.

Speculation, emanating from Paris, that Granada was about to bid for Accor, the French hotel chain, was said by analysts to be the reason the shares slipped 10 to 882½p, despite results at the top of forecasts. The rumours were scotched by Granada, which said they were completely untrue.

Mr Jason Crisp, an analyst at SGST, said that Granada was not only firing on every cylinder, but it was upbeat on its prospects and it appeared that sales of assets would proceed comfortably.

EMI Group strengthened 10¼ to 1305p following favourable media comment on the company's maiden interim results, revealed on Tuesday.

Courtaulds fell 4 to 420p as enthusiasm about the dividend was undermined by figures at the low end of forecasts. The chemicals group announced an interim profit of £64m against a forecast range of between £64m and £70m. Brokers were reducing full-year forecasts by £15m to £20m.

Southnews gained 14 to 461½p – a new high – after the company posted a 36 per cent rise in first-half profits and said it expected the improvement to continue through the rest of the year. The Southnews figures helped United News & Media to rise 16½ to 697p.

BSkyB improved 7½ to 526p after Granada said it intended to retain its 10.8 per cent stake in the satellite television operator.

Capital Radio improved 16 to 561½p after Henderson Financial Management raised its stake and Mr Richard Eyre, the managing director, bought shares.

British Gas fell 4 to 228¼p on the back of persistent institutional selling as speculation about a takeover died away.

CE Heath gained 3¼ to 79p despite a slide in profits from £10.3m to £4.6m. The shares were lifted by news that the insurance broker intends to buy back up to 3.4m of its own shares, representing around 5 per cent of its capital. Firmer copper prices helped RTZ improve 7 to 942p.

Exeter Investment, a fund management group, started trading on AIM at 97½p against a placing price of 92p and closed unchanged.

FT 30 INDEX

	Nov 20	Nov 19	Nov 18	Nov 15	Nov 14	Yr ago	*High	*Low
FT 30	2784.9	2797.8	2777.7	2775.8	2761.0	2656.8	2885.2	2668.8
Ord. div. yield	4.09	4.09	4.12	4.11	4.13	4.05	4.22	3.76
P/E ratio net	16.84	16.88	16.76	16.78	16.70	15.71	17.46	15.80
P/E ratio nil	16.68	16.72	16.60	16.62	16.54	15.61	17.30	15.71

FT 30 since compilation: high 2885.2 19/04/96; low 49.4 26/06/40. Base Date: 1/7/35.

FT 30 hourly changes

Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.00	High	Low
2807.3	2800.5	2794.4	2790.0	2790.8	2790.7	2785.9	2784.4	2785.5	2807.3	2783.7

	Nov 20	Nov 19	Nov 18	Nov 15	Nov 14	Yr ago
SEAQ bargains	37,750	36,343	40,044	37,857	34,250	32,092
Equity turnover (£m)†	-	1023.3	985.8	1222.8	1324.8	2277.3
Equity bargains†	-	23,302	26,802	26,388	23,698	38,070
Shares traded (ml)†	-	367.3	1028.4	449.6	504.6	866.2

†Excluding intra-market business and overseas turnover.

	Nov 20	Nov 19	Nov 18	Nov 15	Nov 14	Yr ago	*High	*Low
FTSE AIM	1023.80	1028.40	1030.00	1029.30	1028.00	-	1140.40	965.70

 *For 1996.

■ London market data

Rises and falls*		52 Week highs and lows		LIFFE Equity options	
Total Rises	501	Total Highs	58	Total contracts	39,964
Total Falls	508	Total Lows	74	Calls	23,119
Same	1,588			Puts	16,845

Nov 20 *Data based on Equity shares listed on the London Share Service.

FUTURES AND OPTIONS

■ FTSE 100 INDEX FUTURES (LIFFE) £25 per full index point (APT)

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec	4003.0	3984.0	-13.0	4003.0	3971.0	10271	55296
Mar	4017.0	4002.0	-13.0	4017.0	3996.0	106	4723
Jun		4018.0	-13.0			0	1783

■ FTSE 250 INDEX FUTURES (LIFFE) £10 per full index point

	Open	Sett price	Change	High	Low	Est. vol	Open int.
Dec		4411.0	+1.0			0	4201
Mar		4447.0	+1.0			0	670

■ FTSE 100 INDEX OPTION (LIFFE) (*3964) £10 per full index point

	3800 C	3800 P	3850 C	3850 P	3900 C	3900 P	3950 C	3950 P	4000 C	4000 P	4050 C	4050 P	4100 C	4100 P	4150 C	4150 P
Dec	186	9	151½	15	109½	23	70½	37	41	59½	21	93½	9½	136½	3½	186
Jan	214½	19½	172½	27½	134½	39	109	55½	69	78	44½	105½	26½	141	14½	186
Feb	238	33	199½	44	161	56	129	75	98	95½	73½	122	51½	153	34½	191
Mar	247½	47½	209½	60	174½	75	140½	92½	113	115½	86	139½	67	171½	48	206
Jun†	293	84			229½	118½			170½	159½			120½	211		

Calls 2,978 Puts 3,858

■ EURO STYLE FTSE 100 INDEX OPTION (LIFFE) £10 per full index point

	3825 C	3825 P	3875 C	3875 P	3925 C	3925 P	3975 C	3975 P	4025 C	4025 P	4075 C	4075 P	4125 C	4125 P	4175 C	4175 P
Dec	170½	12	127	18½	87½	29	54½	45½	30	70½	13½	104½	5	145½	1½	191½
Jan	198½	25½	156	35	118½	47½	84	63	56	85	34	113	18½	148½	11	190
Feb	223	38	184	49	147½	62½	115½	80½	87½	102½	63½	128	45½	160½	31	196
Mar	226½	53	191	65½	157½	82	127	100½	99½	122½	78	147½	56	175½	39	208½
Jun†	280	93½			214½	124½			158½	165			112	215		

Calls 4,177 Puts 3,314 * Underlying index value. Premiums shown are based on settlement prices. † Long dated expiry months.

LONDON RECENT ISSUES: EQUITIES

Issue price p	Amt paid up	Mkt cap (£m)	1996 High	1996 Low	Stock	Close price p	+/-	Net div.	Div. cov.	Grs yld	P/E net
§6	F.P.	[illegible]	[illegible]	[illegible]	†Bernsford	7½	+½	-	-	-	-
3	F.P.	[illegible]	[illegible]	[illegible]	†Beaufort	4¼		-	-	-	48.6
§3	F.P.	[illegible]	[illegible]	[illegible]	†Beechcroft	4		-	-	-	13.2
§157	F.P.	[illegible]	[illegible]	[illegible]	Brands Hatch	170½	-2	W3.5	1.9	2.6	17.2
§130	F.P.	[illegible]	[illegible]	[illegible]	Britt Allcroft	159½		L1.6	3.0	1.3	28.2
§135	F.P.	[illegible]	[illegible]	[illegible]	Charles Taylor	168½	+2	L4.2	0.3	3.1	53.6
3	F.P.	[illegible]	[illegible]	[illegible]	†Corp Exec Search	4¾		-	-	-	-

† Alternative Investment Market. § Placing price. * Introduction. For a full explanation of all other symbols please refer to The London Share Service notes.

FT GOLD MINES INDEX

	Nov 20	% chg on day	Nov 19	Year ago	Gross div yield %	P/E ratio	52 week High	52 week Low
Gold Mines Index (32)	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]		[illegible]	[illegible]
■ Regional Indices								
Africa (14)	2442.77	-1.0	2467.72	2484.61	3.16	34.89	3553.86	2332.70
Australasia (6)	2125.26	-0.3	2131.76	2292.83	2.64	21.12	2927.34	2005.75
North America (12)	1764.75	-0.6	1776.01	1632.57	0.74	66.77	2186.39	1612.25

 Figures in brackets show number of companies. Basis US Dollars. Base Value: 1000.00 31/12/92. † Partial.

FTSE Actuaries Share Indices — The UK Series

Produced in conjunction with the Faculty and Institute of Actuaries

	Nov 20	Day's chge%	Nov 19	Nov 18	Nov 15	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
FTSE 100	3962.8	-0.4	3978.1	3962.1	3958.2	3632.4	4.00	2.04	15.34	160.80	1652.54
FTSE 250	4400.2	----	4400.3	4400.2	4409.9	3949.3	3.56	1.49	23.54	162.62	1795.69
FTSE 250 ex IT	4439.6	----	4440.7	4440.5	4451.2	3969.4	3.65	1.52	22.57	170.86	1815.87
FTSE 350	1974.2	-0.3	1980.2	1973.9	1973.3	1801.4	3.90	1.93	16.59	76.62	1681.59
FTSE 350 Higher Yield	1877.4	-0.6	1887.8	1883.1	1879.6	1806.2	5.21	1.81	13.26	96.24	1346.50
FTSE 350 Lower Yield	2078.2	-0.1	2079.9	2072.0	2074.3	1801.1	2.73	2.14	21.37	58.54	1457.54
FTSE SmallCap	2159.80	----	2160.42	2163.53	2165.37	1952.56	3.16	1.58	25.01	63.41	1798.31
FTSE SmallCap ex IT	2162.26	-0.1	2163.81	2167.72	2169.26	1935.40	3.38	1.65	22.53	67.18	1813.38
FTSE All-Share	1948.57	-0.3	1954.08	1948.57	1948.15	1776.60	3.85	1.91	17.02	76.06	1684.91

■ FTSE Actuaries Industry Sectors

	Nov 20	Day's chge%	Nov 19	Nov 18	Nov 15	Year ago	Div. yield%	Net cover	P/E ratio	Xd adj. ytd	Total Return
10 MINERAL EXTRACTION(23)	3854.03	-0.3	3865.45	3828.37	3801.25	3083.35	3.70	1.71	19.78	142.73	1689.28
12 Extractive Industries(6)	4062.24	+0.7	4033.85	3987.91	3996.81	4206.94	4.00	2.66	11.77	162.00	1210.75
15 Oil, Integrated(3)	4007.72	-0.4	4024.93	3986.13	3951.60	3106.63	3.85	1.55	20.93	154.36	1805.03
16 Oil Exploration & Prod(14)	2820.18	-0.5	2834.93	2816.43	2799.92	1902.83	1.87	1.70	39.30	52.93	1709.39
20 GEN INDUSTRIALS(275)	1973.03	-0.5	1982.31	1978.54	1989.69	1944.05	4.34	1.67	17.22	78.31	1100.18
21 Building & Construction(34)	1167.03	-0.5	1172.80	1179.02	1183.55	984.46	3.62	1.47	23.56	39.71	994.56
22 Building Matls & Merchs(29)	1814.02	-0.1	1815.97	1821.59	1829.41	1760.45	4.27	1.40	20.96	74.81	935.95
23 Chemicals(25)	2370.08	-0.4	2380.36	2355.45	2363.10	2344.93	4.35	1.44	19.96	86.14	1142.45
24 Diversified Industrials(19)	1395.94	-1.3	1414.79	1394.43	1399.75	1777.76	7.26	1.60	10.73	89.84	805.04
25 Electronic & Elect Equip(36)	2245.53	-0.6	2259.41	2271.79	2285.53	2134.49	3.48	1.49	24.14	64.25	1184.28
26 Engineering(71)	2565.39	-0.1	2567.06	2572.76	2592.20	2153.77	3.20	2.27	17.20	78.11	1584.76
27 Engineering, Vehicles(14)	3112.37	+0.1	3110.05	3100.37	3127.73	2573.90	3.47	1.72	20.99	103.02	1642.78
28 Paper, Pckg & Printing(28)	2504.81	-0.9	2528.47	2527.21	2532.91	2498.13	4.13	1.81	16.71	92.41	1063.42
29 Textiles & Apparel(19)	1106.70	-0.2	1111.31	1113.43	1138.67	1467.84	6.44	1.17	16.59	65.45	698.16
30 CONSUMER GOODS(92)	3690.47	-0.5	3707.99	3688.87	3691.21	3563.27	3.93	1.94	16.44	139.23	1292.75

■ Hourly movements

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	High/day	Low/day
FTSE 100	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 250	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
FTSE 350	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

[illegible]

■ FTSE 350 Industry baskets

	Open	9.00	10.00	11.00	12.00	13.00	14.00	15.00	16.10	Close	Previous	Change
Bldg & Cnstrcn	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Pharmaceuticals	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Water	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]
Banks, Retail	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]	[illegible]

For further information on the FTSE Actuaries Share Indices please contact FTSE International on 0171 448 1810. The FTSE Actuaries Share Indices are calculated in accordance with a standard set of ground rules established by FTSE International in conjunction with the Faculty of Actuaries and the Institute of Actuaries. "FT-SE" and "Footsie" are trade marks of the London Stock Exchange and The Financial Times and are used by FTSE International under licence. † Sector P/E ratios greater than 80 are not shown. ‡ Values are negative.

FTSE INTERNATIONAL

TRADING VOLUME

■ Major Stocks Yesterday

	Vol. 000s	Closing price	Day's change
3i†	105	480	+1
ASDA Group†	7,900	119½	
Abbey National†	565	645	
Albert Fisher	259	42¾	+¼
Allied Domecq†	2,300	449½	-4
Anglian Water	540	567½	-9
Argos†	552	747	+3
Arjo Wiggins	2,900	157½	-6½

Based on trading volume for a selection of major securities dealt through the SEAQ system yesterday until 4.30pm. † Indicates an FTSE 100 Index constituent. All trades are rounded. Source: Extel, part of FT Information.

Highs & Lows shown on a 52 week basis

WORLD STOCK MARKETS

EUROPE

AUSTRIA (Nov 20 / Sch)

BELGIUM/LUXEMBOURG (Nov 20 / Frs.)

CZECH REP (Nov 20 / Korona)

DENMARK (Nov 20 / Kr)

FINLAND (Nov 20 / Mka)

FRANCE (Nov 20 / Frs.)

GERMANY (Nov 20 / Dm.)

GREECE (Nov 20 / Drachmas)

ITALY (Nov 20 / Lire)

NETHERLANDS (Nov 20 / Fls.)

NORWAY (Nov 20 / Kroner)

POLAND (Nov 20 / Zloty)

PORTUGAL (Nov 20 / Escudo)

SPAIN (Nov 20 / Pta.)

SWEDEN (Nov 20 / Kronor)

SWITZERLAND (Nov 20 / Frs.)

TURKEY (Nov 20 / TK Lira)

PACIFIC

JAPAN (Nov 20 / Yen)

AUSTRALIA (Nov 20 / Aust$)

HONG KONG (Nov 20 / H.K.$)

INDONESIA (Nov 20 / Rupiah)

MALAYSIA (Nov 20 / MYR)

NEW ZEALAND (Nov 20 / NZ $)

SINGAPORE (Nov 20 / S$)

SOUTH KOREA (Nov 20 / Won)

TAIWAN (Nov 20 / TW $)

THAILAND (Nov 20 / Baht)

AFRICA

SOUTH AFRICA (Nov 20 / Rand)

NORTH AMERICA

CANADA

TORONTO (Nov 20 / Can $) 4 pm close

MONTREAL (Nov 20 / Can $) 4 pm close

INDICES

MIB General(3/1/95)	1112.0	1101.0	1101.0	1142.86	20/5	970.86	27/3
Japan							
Nikkei 225(16/5/49)	21189.36	20956.16	20756.37	22666.80	26/6	19734.70	13/3
Nikkei 300(1/10/82)	295.76	293.46	292.25	319.70	26/6	284.48	11/3
Eurotrack 100(26/10/90)	1828.68	1824.80	1827.06	1828.86	20/11	1604.40	11/1
Euro Top-100(26/6/90)	1534.86	1539.72	1534.29	1539.72	19/11	1333.81	11/1
HSBC JC Orgs(31/12/86)	(u)	408.73	405.86	408.73	19/11	344.19	2/1
MS Bags Emg(7/1/92)	150.64	150.50	150.48	165.81	4/7	147.35	2/1

US INDICES

NASDAQ Cmp	1262.82	1254.57	1261.81	1270.38 (14/11)	988.57 (15/1)

(NASDAQ Cmp, since compilation: High 1270.38 (14/11/96); Low 54.87 (3/10/74).)

■ RATIOS

	Nov 15	Nov 8	Nov 1	Year ago
Dow Jones Ind. Div. Yield	2.06	2.09	2.15	2.35
	Nov 13	Nov 6	Oct 30	Year ago
S & P Ind. Div. yield	1.87	1.89	1.95	2.03
S & P Ind. P/E ratio	22.64	23.56	22.80	18.37

■ NEW YORK ACTIVE STOCKS

Tuesday	Stocks traded	Close price	Change on day
Kmart	14,780,000	11⅛	+1⅛
Tyco Toys	8,371,900	11¼	−¼
Dtsche Tele	8,347,800	21⅛	+⅛
H Packard	7,208,000	52¾	+2⅝
Bay Network	6,196,400	25⅛	+1⅝
IBM	6,023,300	153¾	+6¼
WalMart	5,038,200	24⅛	−¼
PepsiCo	4,328,500	31⅛	−¼
Frontier	3,850,500	27⅝	−3⅛
Chase Manh	3,671,800	92⅛	+3

■ TRADING ACTIVITY

● Volume (million)

	Nov 19	Nov 18	Nov 15
New York SE	454,412	388,044	526,623
Amex	21,514	19,312	24,162
NASDAQ	582,238	597,662	690,457
NYSE			
Issues Traded	3,323	3,299	3,303
Rises	1,440	1,156	1,264
Falls	1,010	1,220	1,181
Unchanged	873	923	858
New Highs	234	183	280
New Lows	22	30	25

INDEX FUTURES

■ CAC-40 (200 x index)

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Nov	2247.0	2235.5	−8.5	2248.0	2222.0	19,103	22,724
Dec	2252.5	2240.0	−8.5	2252.5	2229.5	1,437	19,500

■ DAX

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Dec	2795.0	2770.5	−18.5	2802.0	2762.0	30,746	−
Mar	2815.0	2790.0	−18.0	2820.5	2784.5	275	−

■ OMX

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Nov	1747.00	1740.00	−7.75	1758.00	1733.00	7,835	15,390
Dec	1760.25	1749.25	−7.50	1767.00	1742.00	4,561	18,345

■ SOFFEX

	Open	Sett Price	Change	High	Low	Est. vol.	Open Int.
Dec	3914.5	3882.0	−15.5	3918.0	3875.0	5,443	21,046
Jan	−	3892.5	−	−	−	B	1,840

■ S&P 500

	Open	Latest	Change	High	Low	Est. vol.	Open Int.
Dec	746.20	746.40	+0.10	746.75	744.10	75,049	193,385
Mar	751.80	753.20	+0.05	753.20	751.20	4,346	14,141

■ Nikkei 225

	Open	Sett price	Change	High	Low	Est. vol.	Open Int.
Dec	21130.0	21220.0	+230.0	21270.0	21080.0	27,486	213,077
Mar	21140.0	21240.0	+210.0	21290.0	21090.0	10,624	37,708

Open interest figures for previous day.

** Sat Nov 16: Taiwan Weighted Price 6586.10; Korea Comp Ex 756.87. Base values of all indices are 100 except Australia All Ordinary and Mining – 500; Austria Traded, BEL20, HEX Gen., MIB Gen., SVL30, SBF250, CAC40, Euro Top-100, ISEQ Overall, Toronto Comp./Metals & Minerals and DAX – all 1,000; JSE Gold – 255.7; JSE 20 Industrials – 264.3; NYSE All Common – 50 and Standard and Poor's – 10. §§ Montreal. ǂ Toronto. (c) Closed. (u) Unavailable. ‡ IBIS/DAX after-hours index: Nov 20 - 2764.82 -16.92.

† Correction. * Calculated at 15.00 GMT. ● Excluding bonds. ǂ Industrial, plus Utilities, Financial and Transportation. ǂ The DJ Ind. Index theoretical day's highs and lows are the averages of the highest and lowest prices reached during the day by each stock; whereas the actual day's highs and lows (supplied by Telekurs) represent the highest and lowest values that the index has reached during the day. (The figures in brackets are previous day's). ¥ Subject to official recalculation.

NOTES – Prices on this page are as quoted on the individual exchanges and are mostly last traded prices. * Calendar year highs and lows. ‡ Dealings suspended. xd Ex dividend. xc Ex scrip issue. xr Ex rights. xa Ex all. † Priced in US $.

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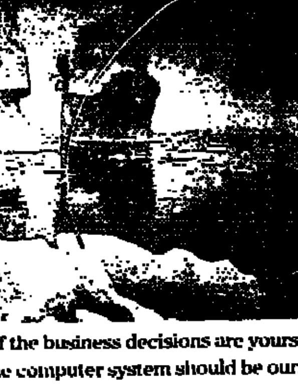
■ TOKYO - MOST ACTIVE STOCKS: Wednesday, November 20, 1996

	Stocks Traded	Closing Prices	Change on day
NEC Corp	9.3m	1370	+40
NKK Corp	8.7m	289	+5
Green Cross Cp	7.3m	610	+25
Nippon Steel Cp	6.5m	350	+4
Ga-Jo-En Kanko	5.2m	127	−1
Toyota Motor	5.2m	2950	+50
Fujitsu	5.1m	1070	+30
Honda Motor	4.4m	2990	+60
Sumitomo Mtl Ind	4.4m	310	+5
Kawasaki Steel	4.0m	358	+6

4 pm close November 20

NEW YORK STOCK EXCHANGE PRICES

1996 High	Low	Stock	Div.	Yld. %	P/E	Sls 100s	High	Low	Close Quote	Chng Prev. Close
31¼	17¾	AAR	0.48	1.7	25	116	27⅝	27¼	27⅜	+⅛
46⅛	33	AMP	1.00	2.7	18	5721	36¾	36¼	36⅝	+¼
97½	68	AMR			18	10064	92⅞	90¼	91	-⅞
50½	37⅜	ASA x	1.40	3.5	28	1225	39⅞	39½	39¾	+⅜
54⅞	38⅛	AbbotL	0.96	1.8	23	7608	54¼	53⅜	53⅞	+⅛
17¼	12¼	AbitibiPr	0.40	2.6	7	749	15½	15¼	15⅜	
20¼	13½	ABM Ind	0.35	2.0	17	1055	17⅝	17⅛	17⅛	-⅛
22½	13⅞	Acpt Insurance			10	48	20⅞	20⅜	20½	
60	37¾	ACE Ltd	0.58	0.9	14	674	u60	59⅛	59¼	-½
10⅜	9⅛	ACM Gvt In x	0.90	8.8	8	184	10¼	10⅛	10¼	
7⅞	6⅝	ACM GrOpp x	0.57	7.9		156	7⅜	7¼	7¼	
9⅞	8⅜	ACM Man x	0.90	9.1		846	u9⅞	9⅝	9⅞	+⅛
13⅞	6⅛	Acme Elect	0.32	4.5	54	61	7¼	7⅛	7⅛	
19½	13⅝	Acme Mills			14	310	u19½	19	19½	+½
33¾	27¾	Acordia	0.72	2.4	15	17	29¾	29½	29¾	+½
24¾	12	Acuson			108	985	23⅛	22⅞	22¾	-⅝
21⅛	17⅞	Adams Expr	0.55	2.6	1	144	u21⅛	21	21	+⅛
25¾	10⅞	AdvMic			25	8613	25⅜	24⅞	24⅞	-⅜
11⅛	8½	Advest Grp	0.16	1.6	7	141	10	9⅞	10	
28⅛	9⅛	Advo Inc	0.10	0.8	97	74	12⅞	12⅝	12⅝	-⅛
56⅝	41⅛	Aegon	1.45	2.6	17	45	56	55½	56	-⅛
6¾	3½	Aeroflex			3	85	4⅝	4½	4½	-⅛
70⅞	57⅝	Aetna	0.80	1.2	9	2274	69¾	69¼	69⅜	
44	28¼	Aflac x	0.40	0.9	17	892	42⅞	42⅜	42½	-⅜
22	17⅛	AGL Res x			15	286	21⅛	20⅞	21	-⅛



Continued on next page

4 pm close November 20

NYSE PRICES

Continued from previous page

Price data supplied by Telekurs

Yearly highs and lows for NYSE reflect the period from Jan 1 1996. Unless otherwise noted, rates of dividend are annual disbursements based on the latest declaration. Sales figures are unofficial.

d-new yearly low. P/E price-earnings ratio. dt-sales. u-new yearly high. x-ex-dividend or ex-rights. yld-yield. z-sales in full.

Dealings suspended.

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AMEX PRICES

4 pm close November 20

NASDAQ NATIONAL MARKET

4 pm close November 20

Tech stocks drive fresh gains in Dow

AMERICAS

Even a modest decline in US Treasury prices could not divert shares from their record-breaking path as the Dow Jones Industrial Average racked up its 12th gain of the past 13 sessions, writes Lisa Bransten in New York.

At 1pm, the Dow had moved comfortably past the 6,400 mark with a gain of 19.75 at 6,417.35. The Standard & Poor's 500 was also on track to close at another record high with a gain of 1.05 at 743.21. The American Stock Exchange composite rose 1.56 at 586.20. NYSE volume was 271m shares.

Bonds weakened along with the dollar after the commerce department said that the US trade deficit had widened to $11.3bn.

Technology shares were also in record-breaking territory with the Nasdaq composite up 4.20 at 1,266.82 and the Pacific Stock Exchange technology index 0.5 per cent stronger.

The biggest tech stocks on the Nasdaq once again led the way. Intel added $1¼ at $122¼, Microsoft gained $¼ at $156¼ and Cisco Systems was $⅞ stronger at $65⅝.

Once again the Dow received a boost from strength in IBM, which added $2¾ at $156⅛.

Other strong performers in the Dow included Boeing, which added $2 at $96 on reports that American Airlines planned to order as many as 100 aircraft from the company. Caterpillar was $3⅞ stronger at $77⅝ after an analyst at Smith Barney raised the rating on the company.

Dayton Hudson, which announced results on Tuesday, rose $1 to $38⅝ after several analysts upgraded their ratings.

Kmart gave back $⅛ of the $1⅛ it rose on Tuesday bringing the shares to $11. That slip came as the retailer reported net income of 2 cents a share to beat analysts estimates that it would only break even.

TORONTO continued to hit highs during an active morning session, pulled along by strong early gains on Wall Street. At noon, the 300 composite index was up 43.52 at 5,949.07.

The recovery in the bullion price allowed golds to head the sector performance charts with a rise of 1.7 per cent. Transport stocks were not far behind, up 1.6 per cent.

The better bullion price brought visible relief to many gold stocks. Barrick Gold rose C$1.05 to C$37.75 and Placer Dome 70 cents to C$35.35.

Inco put on C$1.05 to C$45.85 and Seagram gained 65 cents to C$53.

SAO PAULO was weak as blue chip, preferred shares in the state mining giant, Companhia Vale do Rio Doce, came under pressure from mounting opposition to government plans to privatise the company.

The shares slipped to a morning's low of R$21 as two former presidents, Mr Jose Sarney and Mr Itamar Franco joined forces in opposing the sell-off. Later, however, the shares recovered to trade R$0.04 down on the day at R$21.30 as President Fernando Henrique Cardoso said that he had no intention of backtracking on the sell-off.

The Bovespa index was 129 lower at 65,441 in midsession trade.

Indicators weigh on senior bourses

EUROPE

Inflationary fears, lower bond prices and weakness in the dollar put pressure on senior bourses in spite of Wall Street's strength.

In FRANKFURT, where the October M3 growth rate stayed at an annualised 8.4 per cent, and where a gain in the Ifo business climate index undermined lingering hopes of a rate cut, the Dax index moved from a day's high of 2,794.39 to close 15.46 down at an Ibis-indicated 2,766.08.

Turnover fell from DM15.9bn to DM12.3bn as the excitement over Monday's Deutsche Telekom debut worked its way out of the system. Telekom closed unchanged at DM32 in turnover of DM1.9bn.

Company results were rewarded, and punished. Continental, the tyremaker, rose 91 pfg to DM26.60 after a 62 per cent rise in nine-month profits and the drugs group, Merck, added DM1.45 at DM56.55 on a 25 per cent profits gain.

In steels, there had been a late 4.5 per cent gain in Thyssen on Tuesday on stories that restructuring details were imminent; yesterday, however, the shares fell DM3.80 to DM281 as analysts said that the restructuring would accompany a big drop in profits, due today, and as Preussag, also big in steel, indicated a sharp profits fall for the year to last September. Preussag closed DM22.45 or 6 per cent lower at DM353.95.

PARIS moved lower following another steep fall for Eurotunnel and signs of severe disquiet at Renault which tumbled 3.7 per cent. The CAC-40 ended off 6.66 at 2,233.39.

Total rose strongly, adding FFr6.40 at FFr411.40 after solid nine months sales growth, and Lafarge rose FFr33.30 to FFr318.30 after gaining a place on Detroyat's favoured stock list at the expense of Lagardère, off FFr2.70 at FFr153.50.

But most shares moved unequivocably lower. Renault, shaken by the poor recent results from its European rival Fiat, lost FFr4.50 to FFr117. The aftermath of the Shuttle fire left Eurotunnel off a further 25 centimes at FFr7.45.

Bid rumours picked out Club Med. Accor, the hotels group, was said to be the potential predator, and the holiday group's shares jumped FFr12.30 to FFr321.

AMSTERDAM gave up early gains as Dutch bonds moved lower in line with bunds. International stocks showed clear weakness and at the close the AEX index was off 2.87 at 6,506.59.

KLM continued to subside and Philips also had a bad day. The airline shed 70 cents to Fl 40.30, the steepest decline in the AEX, and Philips came off 70 cents to Fl 62.90.

Among second liners, Stork, the diversified engineer, jumped Fl 3.00 to Fl 58.60 on news that a Stork-led consortium had won a Fl 1bn gasfield renovation order.

ZURICH was burdened by disappointing 10 month figures from Nestlé, and the SMI index continued its consolidation, down 9.3 at 3,883.3 and just short of its record high. Nestlé lost SFr12 at SFr1,415 as its sales figures failed to match market expectations.

In a mixed financial sector, UBS recovered SFr17 to SFr1,274 after Tuesday's losses. Winterthur closed SFr6 higher at SFr793, spurred higher by Tuesday's announcement of a go-ahead for direct non life operations in China.

Among second liners, SEZ, the holding company for an Austrian high tech group, jumped to SFr1,567 as the stock made its trading debut, a sharp premium to the SFr960 offer price.

MILAN edged higher although Fiat and Olivetti, which remained at the centre of attention, lost out to waves of profit-taking. The Comit index rose 6.66 to 655.58 while the real-time Mibtel index finished just 18 higher at 10,433.

Olivetti, the troubled technology group which had risen 32.4 per cent from an admittedly low base since the start of the month, gave back L26.8 or 4.6 per cent at L554.2.

Fiat lost L47 to L4,538 as the market awaited details of any government steps to boost the car market.

STOCKHOLM featured a gain of SKr25 to SKr970, after SKr987, in Hennes& Mauritz after the retailer said it would open its first store in France, in the Paris Rue de Rivoli, in the first half of 1998 and that it was in negotiations for several other sites.

However, Ericsson Bs fell SKr3 to SKr197 after a NatWest downgrade, and the Affärsvärlden General index eased 3.8 to 2,239.4.

HELSINKI, in contrast, saw Nokia A close FM6 higher at FM259 after last week's healthy January-September report; with a rising trend in banks and insurance stocks, this helped the Hex index to a gain of 18.40 at 2,372.68.

MADRID held on to close at another all time high, the general index rising 0.54 to 391.35.

Repsol ended Pta40 higher at Pta4,390 after the Catalan savings bank, La Caixa, said that it had lifted its stake in the oil company from 5.0 to 5.3 per cent.

ISTANBUL had another active session. The IMBK-100 index, down almost 4 per cent on Tuesday after a Japanese downgrade for Turkish debt, gained nearly 6 per cent, closing 4,733.73 higher at 84,595.12.

Written and edited by William Cochrane, Michael Morgan and Jeffrey Brown

FTSE Actuaries Share Indices

Nov 20 THE EUROPEAN SERIES	Open	10.30	11.00	12.00	13.00	14.00	15.00	Close
Hourly changes								
FTSE Eurotrack 100	1831.11	1832.04	1831.55	1832.01	1831.89	1830.61	1829.03	1828.66
FTSE Eurotrack 200	1874.57	1874.79	1874.41	1873.58	1873.75	1870.99	1869.98	1869.15

	Nov 19	Nov 18	Nov 15	Nov 14	Nov 13
FTSE Eurotrack 100	1824.80	1827.08	1828.08	1811.76	1799.36
FTSE Eurotrack 200	1869.65	1868.03	1865.31	1852.99	1843.46

Base value 1000 (26/10/90). High/day: 100 - 1833.66, 200 - 1875.82 Low/day: 100 - 1827.77 200 - 1867.69 † Partial.

S Africa golds firmer, industrials weak

Industrial shares in Johannesburg stayed weak, but golds recovered smartly under the influence of a perkier bullion price.

At the close, the overall index was off 15.1 at 6,850.9 and industrials were down 9.6 at 8,077.2 after a session of mostly narrow trading. The golds index gained 25.3 to 1,712.5. As the bullion price clawed back above $379, a number of mines bounced strongly. Dries put on R1 to R59.50 and Freegold gained 50 cents to R40.75.

Notable exceptions to the downturn among industrials were Togaat-Hulett and AECI. The foods group turned in upbeat interim results, to jump R1.25 to R58. AECI rose 75 cents to R27.

EMERGING MARKETS: IFC WEEKLY INVESTABLE PRICE INDICES

Market	No. of stocks	Dollar terms November 15 1996	% Change over week	% Change on Dec '95	Local currency terms November 15 1996	% Change over week	% Change on Dec '95
Latin America	(249)	530.51	+0.9	+9.3			
Argentina	(31)	894.22	+3.9	+11.6	548,399.02	+3.8	+11.6
Brazil	(68)	372.98	-0.5	+22.2	1,436.76	-0.5	+29.4
Chile	(45)	674.23	-1.7	-9.9	1,130.05	-1.8	-7.3
Colombia	(14)	637.26	-1.4	+6.6	1,125.01	-1.6	+7.2
Mexico	(64)	529.42	+1.3	+18.8	1,803.97	+1.2	+19.8
Peru	(19)	208.18	-0.6	+4.5	323.48	-1.8	+16.5
Venezuela	(8)	675.45	+2.7	+102.0	7,309.73	+2.5	+180.0
Asia	(712)	263.77	+0.9	+8.3			
China	(27)	57.49	+1.0	+8.3	60.23	+1.0	+8.0
South Korea	(157)	91.35	+1.7	-27.5	99.42	+1.8	-22.6
Philippines	(42)	289.49	-0.6	+11.5	367.29	-0.8	+11.7
Taiwan, China	(90)	146.11	-0.1	+29.6	150.84	-0.2	+30.5
India	(79)	80.26	+2.0	-0.1	101.98	+1.6	+1.5
Indonesia	(49)	127.95	+3.4	+16.7	162.40	+3.5	+19.2
Malaysia	(148)	327.39	+0.3	+20.7	304.97	+0.5	+20.0
Pakistan	(28)	227.69	+0.6	-6.2	415.94	+0.6	+10.3
Sri Lanka	(5)	102.93	+4.2	-1.1	127.90	+4.0	+5.8
Thailand	(67)	281.24	+3.9	-25.2	283.88	+3.7	-24.5
Euro/Mid East	(264)	133.95	-2.1	-8.4			
Czech Rep	(7)	61.29	-3.3	+2.1	54.77	-3.1	+3.0
Greece	(54)	240.51	-3.2	-0.4	388.02	-3.1	+0.3
Hungary	(12)	172.84	-0.9	+75.6	323.59	-0.8	+100.0
Jordan	(7)	181.26	-0.8	-1.9	270.82	-0.6	-1.7
Poland	(30)	699.49	-3.1	+64.1	1,238.34	-2.9	+87.0
Portugal	(26)	142.29	+2.3	+22.9	148.11	+2.4	+25.4
South Africa	(63)	214.87	+1.4	-16.7	207.35	+0.5	+6.7
Turkey	(58)	141.26	-1.9	+35.2	6,567.53	-0.9	+120.4
Zimbabwe	(5)	434.65	+1.2	+58.2	882.86	+1.3	+81.1
Composite	(1225)	294.28	+0.6	+8.7			

Indices are calculated at end-week, and weekly changes are percentage movement from the previous Friday. Base date: Dec 1988=100 except those noted which are: [illegible]

China's hard currency B shares, traded in Shenzhen and Shanghai, took another leap yesterday, as rumours suggesting that the government planned measures to support the markets continued to do the rounds.

Shenzhen's B index rocketed 8.3 per cent, taking its rise since the start of the week to a startling 22 per cent. Shanghai, which had been slower to catch the upbeat mood, jumped 5.5 per cent yesterday, extending its more modest rise on the week to 6.2 per cent.

Shenzhen was spurred into action after a local press report at the end of last week said that the China Securities Regulatory Commission was concerned about the market's prolonged bear run, which had adversely affected China's reform policy. Subsequent reports suggested that CSRC regulators were meeting to consider policies to boost the market.

Analysts say that this week's buying has been led by Chinese domestic institutional investors, supplemented by demand from foreigners anxious not to be left behind in the rush.

One dealer added that money was also piling in from Chinese individual investors, but it was impossible to quantify how much, since their participation was illegal.

China's B shares are supposed to be available only to foreign investors, but much of the trading is done by domestic investors through a variety of means.

Market watchers have been at a loss to suggest what market boosting measures might be implemented, beyond allowing Chinese investors formally into the markets.

BHP propels Sydney to all-time high

ASIA PACIFIC

Wall Street's overnight gains and a bounce for BHP took SYDNEY to an all-time high, the All Ordinaries index closing 26.7 higher at 2,392.7.

Helped by higher copper prices and news of a tax settlement, BHP led a strong rally by resource stocks, jumping 56 cents or more than 3 per cent to A$18.15.

WMC put on 18 cents to A$7.73 and CRA 35 cents to A$19.81. MIM was the day's most active stock, rising 5 cents to A$1.74 in 13.4m shares.

ANZ Bank gained 18 cents to a new high of A$7.26 after strong results and an increase of a third for the final dividend. Westpac added 13 cents to A$7.36.

Lend Lease, the property group, also touched a new high, rising 59 cents to A$23.60.

TOKYO put on 1.1 per cent and topped 21,000 again, helped along by the afternoon plunge in the bond market and strong buying interest in international blue chips among foreign and domestic investors, *writes Gwen Robinson*.

The Nikkei 225 average rose 233.78 to 21,189.96 after moving between 20,997.01 and 21,217.51. Volume swelled to an estimated 360m shares from Tuesday's 219m.

Investors pursued blue chips including car makers and high technology issues early in the day, partly due to the record-breaking advances on Wall Street overnight. Companies which posted strong interim results this week also benefited from the surge of interest.

The Topix index of all first-section stocks added 10.70 to 1,572.78 and the capital-weighted Nikkei 300 gained 2.30 at 295.76. Advances led declines by 665 to 366 with 201 unchanged.

In London, the ISE/Nikkei 50 index rose 1.20 to 1453.95.

Sony advanced Y100 to Y7,100. Investors thought that the stock, listed in New York in the form of American depository receipts, had been left undervalued by Wall Street's recent gains. Selective buying of other blue chips drove Toyota up Y50 to Y2,950, Canon Y30 to Y2,430 and Honda by Y60 to Y2,990.

TDK rose Y100 to Y6,880 on Tuesday's announcement of a record 253 per cent rise in interim consolidated net profits. Kyocera, however, fell a further Y70 to Y7,260 in spite of Monday's healthy first-half earnings announcement, on growing concerns about the group's outlook amid intensifying competition in the mobile telephone market.

NEC, the day's most active issue, added Y40 to Y1,370 in volume of 9.3m shares. Other semiconductor-related issues gained ground, Fujitsu rising Y30 to Y1,070 and Hitachi Y10 to Y1,020.

Deutsche Telekom fell Y30 to Y2,410 following its lukewarm Tuesday debut in Tokyo which left it down Y60 from its Y2,500 opening price.

In Osaka, the OSE average added 180.41 and volume surged to 20.02m shares.

BOMBAY tumbled 2.5 per cent as the recent flow of disappointing first half corporate news prompted speculative selling by domestic and foreign investors. The BSE-30 index dropped 76.22 to 3,063.50, under further pressure from rumours of an impending rise in petroleum prices.

HONG KONG marched to a third consecutive record close, still supported by a positive outlook for interest rates, and the Hang Seng index held on to a gain of 110.23 to close at 13,167.16 after a new intraday high of 13,229.15.

Turnover soared to HK$12.3bn, just short of the year's best level of HK$12.6bn. Interest-rate-sensitive property stocks led the market, followed closely by utility shares. Henderson Land rose HK$1.50 to HK$74.75 after touching an all-time high of HK$75.25.

JAKARTA succumbed to profit-taking and the composite index came off 8.45, or 1.4 per cent at 606.76.

There was also some hesitation ahead of next week's flotation of Bank Negara Indonesia. BNI shares make their debut next Monday with unsuccessful investors receiving refunds today.

BANGKOK traded narrowly as investors awaited political developments following the weekend general election. The SET index closed at 966.43, up 2.24.

"The market is waiting for news of the new cabinet line-up. Sentiment is going to remain politically sensitive for some time", said one broker.

National Finance gained Bt1 to Bt63.50. Bangkok Bank put on Bt2 to Bt206.

FT/S&P ACTUARIES WORLD INDICES

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NATIONAL AND REGIONAL MARKETS (Figures in parentheses show number of lines of stock)	TUESDAY NOVEMBER 19 1996 US Dollar Index	Day's Change %	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	Local % chg on day	Gross Div. Yield	MONDAY NOVEMBER 18 1996 US Dollar Index	Pound Sterling Index	Yen Index	DM Index	Local Currency Index	DOLLAR INDEX 52 week High	52 week Low	Year ago (approx)
Australia (78)	214.65	-0.5	189.95	151.09	167.70	179.81	-0.8	4.25	215.68	191.32	151.90	168.39	181.24	218.14	182.48	182.48
Austria (24)	184.08	-0.2	162.90	129.58	143.82	143.75	-0.2	1.99	184.54	163.66	129.97	144.07	144.01	195.04	168.36	169.12
Belgium (27)	228.74	-0.2	202.42	161.02	178.71	174.71	-0.1	3.82	229.11	203.23	161.36	178.87	174.87	229.11	197.59	200.13
Brazil (28)	179.77	-0.1	159.09	126.55	140.45	340.77	-0.1	1.80	179.94	159.62	126.73	140.48	341.16	189.70	129.15	132.44
Canada (116)	192.37	0.6	170.24	135.41	150.30	186.92	0.6	1.93	191.32	169.71	134.75	149.37	185.78	192.37	144.35	145.24
Denmark (30)	338.50	-0.2	299.56	238.28	264.47	265.74	-0.1	1.73	339.10	300.79	238.83	264.74	266.09	339.10	276.89	281.96
Finland (24)	236.35	-1.2	209.16	166.37	184.66	224.70	-1.1	2.23	239.34	212.30	168.57	186.86	227.24	239.34	171.73	212.87
France (93)	211.43	0.3	187.10	148.83	165.19	168.57	0.4	2.90	210.61	186.99	148.47	164.58	167.85	211.43	167.70	182.90
Germany (59)	187.30	0.1	165.75	131.84	146.33	146.33	0.1	1.87	187.16	166.01	131.81	146.12	146.12	188.59	158.60	161.01
Hong Kong (59)	492.19	0.4	435.57	346.46	384.54	488.60	0.4	3.17	490.26	434.87	345.29	382.75	486.66	492.19	354.67	354.67
Indonesia (27)	224.18	-1.0	196.38	157.80	175.15	321.60	-0.9	1.60	226.45	200.87	159.49	176.79	324.66	-	-	-
Ireland (16)	318.60	-0.1	282.12	224.41	249.07	267.68	-0.4	3.41	319.17	283.11	224.79	249.18	268.71	319.32	248.80	257.01
Italy (59)	82.68	1.1	73.17	58.20	64.59	93.46	1.2	2.22	81.76	72.52	57.58	63.83	92.32	84.53	67.22	70.43
Japan (480)	141.94	0.5	125.61	99.91	110.89	99.91	0.4	0.77	141.28	125.32	99.50	110.30	99.50	164.69	137.62	142.96
Malaysia (107)	586.27	0.4	518.82	412.69	458.05	569.50	0.3	1.10	583.73	517.79	411.12	455.73	567.53	587.74	427.35	427.35
Mexico (27)	1207.74	-0.2	1068.79	850.15	943.59	10431.80	-0.3	1.06	1209.82	1073.14	852.07	944.52	10459.65	1325.65	869.82	869.82
Netherland (19)	324.93	-0.3	287.54	228.72	253.86	249.99	-0.2	2.96	325.84	289.03	229.49	254.39	250.43	325.84	260.08	260.08
New Zealand (15)	92.32	-0.1	81.70	64.98	72.13	68.82	-0.6	4.04	92.42	81.98	65.09	72.15	69.22	94.35	75.94	76.52
Norway (35)	280.15	0.6	247.92	197.21	218.88	240.89	0.7	2.10	278.44	246.98	196.10	217.38	239.33	280.15	222.24	225.58
Philippines (22)	197.55	0.1	174.82	139.06	154.34	258.43	0.0	0.62	197.43	175.12	139.05	154.13	258.41	-	-	-
Singapore (43)	408.38	0.0	361.40	287.47	319.06	263.47	0.0	1.02	408.47	362.32	287.68	318.90	263.43	465.21	365.65	365.65
South Africa (44)	333.34	-0.3	294.99	234.65	260.44	337.74	-0.8	2.30	334.44	296.65	235.54	261.10	340.53	437.76	314.20	374.69
Spain (37)	196.95	0.4	174.29	138.64	153.88	188.70	0.5	3.17	196.08	173.93	138.10	153.08	187.79	198.95	152.70	152.70
Sweden (48)	407.14	-0.5	360.30	286.59	318.09	398.88	-0.3	2.14	409.08	362.86	288.11	319.37	399.93	409.12	294.19	311.68
Switzerland (37)	250.39	0.2	221.58	176.25	195.62	196.85	0.1	1.50	249.98	221.74	176.08	195.16	196.65	254.34	219.29	226.64
Thailand (45)	121.53	1.7	107.55	85.55	94.95	119.69	1.6	2.66	119.64	106.03	84.19	93.32	117.87	193.95	112.17	149.64
United Kingdom (213)	268.09	0.8	237.24	188.71	209.45	237.24	0.4	4.00	266.45	236.35	187.66	208.02	236.35	268.09	222.43	225.84
USA (624)	301.67	0.7	266.97	212.35	235.69	301.67	0.7	1.96	299.64	265.78	211.03	233.93	299.64	301.67	243.34	245.97
Americas (795)	276.06	0.7	244.30	194.32	215.68	232.04	0.7	1.97	274.25	243.27	193.15	214.11	230.52	276.06	222.53	223.85
Europe (720)	232.62	0.3	205.86	163.75	181.74	196.56	0.3	2.94	231.94	205.74	163.36	181.09	196.06	232.62	194.31	196.75
Nordic (137)	349.16	-0.4	308.99	245.78	272.79	299.19	-0.3	2.08	350.64	311.03	246.96	273.76	298.99	350.64	261.13	278.74
Pacific Basin (876)	156.94	0.4	140.65	111.88	124.18	113.44	0.3	1.23	158.33	140.44	111.51	123.61	113.08	177.01	151.89	151.89
Euro-Pacific (1596)	189.52	0.3	167.72	133.41	148.07	144.77	0.3	2.11	188.89	167.55	133.03	147.47	144.36	190.57	170.50	170.50
North America (740)	295.18	0.7	261.22	207.78	230.62	294.16	0.7	1.98	293.20	260.06	206.50	228.91	292.18	295.18	237.56	238.74
Europe Ex. UK (507)	208.48	0.1	184.50	146.75	162.88	171.70	0.2	2.32	208.25	184.73	146.67	162.59	171.38	208.48	174.81	176.73
Pacific Ex. Japan (396)	307.86	0.1	272.44	216.71	240.53	265.43	0.0	2.80	307.52	272.78	216.58	240.08	265.42	307.86	243.67	243.67
World Ex. US (1811)	191.63	0.3	169.58	134.89	149.72	150.17	0.3	2.09	191.00	169.42	134.52	149.11	149.76	191.63	171.50	171.50
World Ex. UK (2222)	222.16	0.5	196.61	156.39	173.57	189.23	0.5	1.83	221.13	196.15	155.74	172.64	188.36	222.16	191.33	191.33
World Ex. Japan (1955)	270.59	0.5	239.46	190.47	211.41	253.40	0.5	2.35	269.28	238.86	189.65	210.23	252.23	270.59	222.93	223.26
The World Index (2435)	226.11	0.5	200.10	159.17	176.66	193.69	0.5	2.05	225.03	199.61	158.49	175.68	192.82	226.11	194.35	194.35

Market closed 20/11/1996. Mexico

PORTUGAL

An unexpected sense of confidence prevails

The Socialist government is settled and the country is within sight of meeting monetary union criteria, write David White and Peter Wise

To a degree unsuspected by anyone, and least of all the Portuguese themselves, Portugal seems to have been seized by a new sense of confidence. The country's habit of self-depreciation has been misleading. In both its politics and economy, it has outperformed most expectations.

A year into its new Socialist government, Portugal is more settled politically than might have been predicted, and at the same time closer to the economic targets for Europe's monetary union (Emu) than would generally have been thought plausible.

The business mood is improving, and some economists believe Portugal – for all its vulnerable points – may be about to enjoy its best year since the late 1980s, before the new-found euphoria associated with EU membership was soured by recession.

In all its time in the EU, Portugal had kept the same prime minister, a new experience after the turbulent politics of its previous decade of rediscovered democracy. It seemed likely that, after Aníbal Cavaco Silva, Portugal would be in for a less stable phase. His Socialist successor, António Guterres, came four seats short of a parliamentary majority at the election in October last year, and it looked as if the need for a tough budget this autumn could cause serious problems. But opinion surveys say Mr Guterres would get his majority now if he went to the polls – something that, in the run up to the European single currency, he has no wish, and no reason, to do.

The centre-right Social Democrats, now in opposition, are not inclined to upset the apple cart, and are set to allow the crucial 1997 budget to pass by abstaining.

Unlike the much smaller conservative Popular Party to its right, or the Communists, they are strongly in favour of Portugal's aspirations to being part of Emu; and, after 17 years as a government party and 10 ruling on its own, the party badly needs to re-charge its batteries. It has been battered by successive defeats in local, European, parliamentary and presidential elections, and most recently in regional elections in its once-impregnable fortress of the Azores.

Since a recent party conference, Marcelo Rebelo de Sousa, an engaging and wealthy lawyer who combines being opposition chief with giving classes in political science to university students, appears more solidly in charge than when he was chosen as leader eight months ago.

He knows there is little early prospect of toppling the articulate Mr Guterres, barring a serious upset – such as Portugal being left out in the cold in the decision on the single currency. After next year, however, he could possibly try to form a new centre-conservative alliance on his own terms, counting on the weakness of a Popular Party sapped by a leadership struggle. This would not make a majority, but could be capable of forcing elections before they fall due in 1999.

Before that, however, Portugal will know its fate as far as Emu is concerned. Its aim of joining the first group of single currency countries – important symbolically for a country that worries about being on the periphery of Europe, and practically in terms of its investment climate – was widely treated until recently as far-fetched. But sceptics have come around to believing Portugal can qualify to join either at the outset or shortly after. Its technical case is arguably the most convincing of any southern EU member.

"We're not running a last-minute race," says Mr Guterres, acknowledging his predecessor's commitment to the targets.

Portugal is not far from any of the criteria. Inflation, although exposed to changes in energy prices, has been falling steadily for several years. The escudo has been solid. Public debt, as a proportion of national output, is higher than the prescribed level, but is coming down as a result of an active privatisation programme and is lower than, say, the Netherlands' or Austria's. The public sector deficit has repeatedly performed better than planned. This year it is now expected to come out at 4 per cent of GDP, below the 4.2 per cent forecast. Next year's is set in the budget at 2.9 per cent, inside the Maastricht target. It has been possible to do this without tough measures such as freezing civil servants' salaries, and without increasing tax rates – but principally by collecting more tax.

The Bank of Portugal sees the only risk of slippage coming from debt-servicing charges or spending on social and unemployment benefits. But interest rates have been moving downwards, and unemployment has been holding steady at about 7 per cent.

"We can be the surprise of the single currency," proclaims Augusto Mateus, economy minister. The government maintains it could join even if Spain were held out, but is clearly crossing its fingers, hoping the Iberian countries will make the grade together. It sees no interest in delaying either the launch of the euro or Portugal's entry. Its nightmare is that, outside the euro, rising interest rates could carry it further adrift from the targets, budget control would become harder, and public opinion might start turning against the whole idea.

Growth, in spite of a recently sluggish trend among Portugal's main export customers, is expected to rise to over 2.5 per cent this year and come close to the 3 per cent hoped for by the government next year. Mr Mateus says the country has enough reserve for growth to keep ahead of the EU average and catch up with income levels in the rest of the Union by the end of the first quarter of the next century.

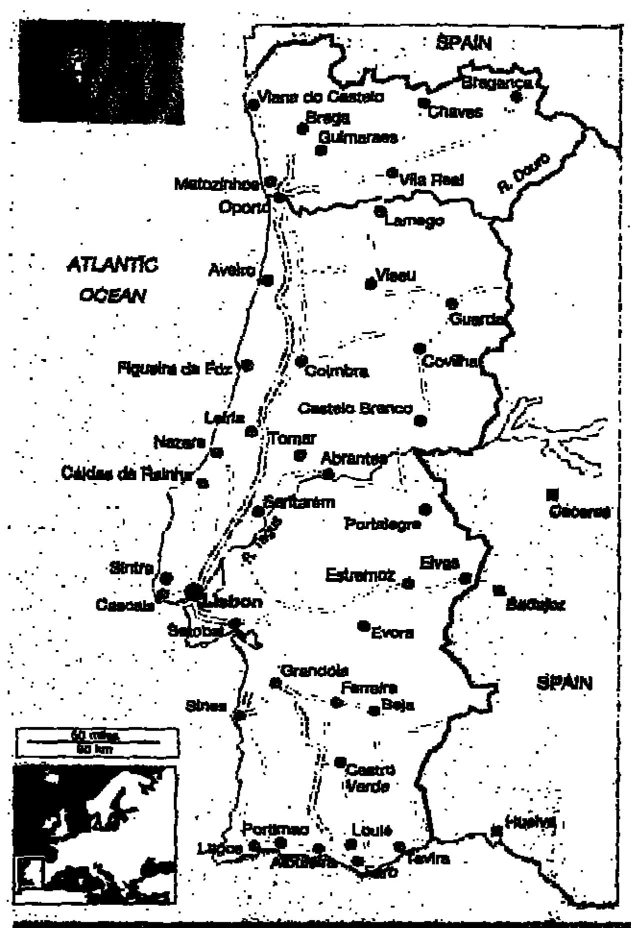
However, this is not to understate the challenge for Portugal, losing ground in competitiveness in recent years and standing to suffer heavily from the further enlargement of the EU, especially in crucial export industries such as textiles. "All our enterprises are faced with an adjustment in dimension," Mr Mateus warns. Today, Portugal has the EU's lowest manufacturing wages; in the future, it will face the same problem from central and eastern Europe that it has posed up to now for other EU countries.

Whatever the difficulties of competing within a single-currency bloc, Mr Guterres has no doubts: "It will be easier inside than outside." He sees the budgetary consolidation imposed by Maastricht as providing the best environment for his long-term project, thorough welfare reform, offering greater protection for the neediest sectors of the population.

While aspiring to keep up with the European vanguard, much of the country lags in development in some obvious ways.

Portugal is like its postal system, with pillar-boxes of different colours, blue for next-day delivery, red for normal service. It is a country only about 100 miles wide but where people still talk of "the interior". Telecommunications are up-to-date, but not railways or secondary roads. It is a place where you can pay for your coffee with an "electronic purse" card, but where one person in eight would be unable to read the instructions.

Employers see an urgent need to raise levels of education and training. "Portugal is reasonably well-equipped in its hardware," Mr Ludgero Marques, president of the Oporto Industrial Association, puts it, "but with problems in its software."



Economic summary

	1995	1996 (f)
Total GDP ($ billion)	100.6	103.5
Real GDP growth (annual % change)	1.9	2.5
GDP per head ($)	10,789	11,025
Inflation (annual av. % change in CPI)	4.1	3.1
Industrial output (annual % change)	4.6	2.2
Unemployment rate (% of workforce)	7.2	7.3
Interest rate (injection rate, %, end-year)	8.5	6.75
Money supply, M3 (annual % change)	7.3	8.4
Foreign exchange reserves ($bn)	21.7	22.0
Government spending (% of GDP)	49.5	49.5
Government balance (% of GDP)	-5.2	-4.5
Government debt (% of GDP)	71.8	73.5
Current account balance ($bn)	-1.5	-1.5
Exchange rate (Es per $, end-year)	149.4	(Nov 14) 152.5
Exports ($bn)	22.8	23.5
Imports ($bn)	32.6	32.9
Trade balance ($bn)	-9.8	-9.4

Main exports 1994 (% of EU total)

Clothing	19.6%
Machinery	17.0%
Footwear	9.5%
Textiles	7.3%
Paper	6.4%
Transport goods	6.1%

Main imports 1994 (% of EU total)

Machinery & electrical	20.7%
Transport equipment	17.6%
Chemicals	9.2%
Agriculture	9.1%
Textiles	7.5%

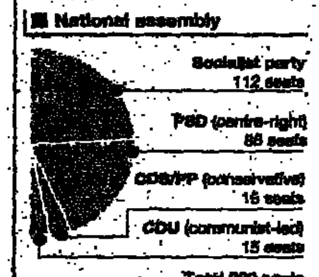
Leading markets	1994	Leading suppliers
19.7%	Germany	15.0%
14.5%	France	13.5%
11.4%	Spain	15.0%
10.8%	UK	7.5%
75.6%	EU	72.1%

(f) forecast

General information

Head of state: President Jorge Sampaio

National assembly



Legal system

Legal system: Courts are autonomous, bound only to established law and to the demands of the constitution. They are generally noted for their adhesion to traditional principles of independent jurisprudence, but inefficient bureaucratic organisation has created serious overloading in the system.

Climate

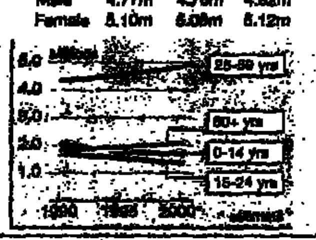
Climate: Portugal has a benign climate with mild winters and long, hot summers. The mountainous region of the north-east experiences snow and heavier rainfall in the winters. Average daily temperatures range from 8C to 15C in winter and from 16C to 25C in summer. Madeira has a sub-tropical climate, and the Azores experience damp, rainy winters and humid summers.

Language

Portuguese. English is spoken by many, including most businessmen.

Population

	1990	1995	2000*
Total	9.87m	9.84m	9.94m
Male	4.77m	4.76m	4.82m
Female	5.10m	5.08m	5.12m



International organisations

Member of EFTA, 1964-85; joined European Community (EC), now European Union), January 1 1986. Adheres to the General Agreement of Trade and Tariffs (GATT). A commonwealth of the world's seven Portuguese-speaking countries (CPLP) was launched in mid-1996. Portugal has a relatively close relationship with Brazil, and Lisbon is the headquarters of the Association of Portuguese Speaking States (PALOPS). Member of the United Nations and a founding member of NATO.

Sources: Union Bank of Switzerland; World of Information; Eurostat

The economy • by Peter Wise

Challenges in Europe

Competitiveness is a cause for concern as Portugal sets its targets

Economists and politicians, confident that Portugal will comply with the Maastricht criteria for European monetary union (Emu) next year, are turning their attention to how the country will compete in an expanded European Union after the planned launch of the single currency in 1999.

"Meeting the Emu criteria is like joining shuttles in space – everybody has to be in the same place travelling at the same speed," says Augusto Mateus, the economy minister. "But it is only the beginning of a process for achieving our ultimate goal of improving competitiveness."

He is convinced that Portugal, where gross domestic product is below 65 per cent of the average EU level, can catch up with average European levels of output and income in 25 to 30 years. What he says would take 80 years at normal rates of growth can be achieved "in a generation" with the right outlook and policies.

By then, Portugal would be "a modern, competitive economy at the centre of a new Europe, not a peripheral country". He believes development of poor, non-industrial regions can add 1 percentage point a year to GDP growth, already forecast at above the EU average to 1999. But the main drive for growth should come from "a new approach to competitiveness".

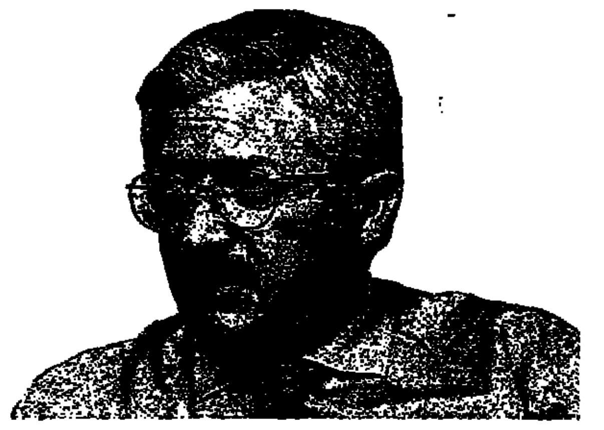
The challenge is worthy of the approaching millennium. Portugal fell from 13th position in 1993 to 20th this year in the world ranking of competitiveness drawn up by the World Economic Forum and IMD, a leading Swiss management school. It was overtaken by Spain, Italy, Turkey and, most importantly, by the Czech Republic.

"It is a cause of concern for Portugal that the competitiveness of the Czech Republic, Poland and Hungary has improved so remarkably," says Miguel Namorado Rosa, an economist with Banco Comercial Português. "Czech wage costs are one quarter of those in Portugal, the country is next to Germany, infrastructure is better, and the workers are skilled high school graduates who speak English and German."

At the same time at the EU expands to include these increasingly competitive central European countries, EU funds to Portugal, an important resource for modernisation, are diminishing. Net EU transfers to Portugal reached a peak of Es622.4bn in 1996, about 3.8 per cent of GDP, but will fall to Es546.7bn in 1997 and probably drop substantially after 1999. The country's prospects for economic growth, while remaining above the EU average, are much slower after 1999, says Mr Namorado Rosa.

Although the degree of confidence in the future varies, there is almost unanimous belief in Portugal that it will be easier to accelerate growth and improve competitiveness inside the single currency rather than out. "Participating in Emu will help lower interest rates and inflation, making reform easier," says António Guterres, the premier.

Consensus is also growing the Portugal will achieve the government aim of joining the euro from the start. Inflation, which has been falling by about 1 percentage point a year for the past five years, is forecast to drop below 2.5 per cent in 1997. Public debt is projected at 68 per cent of GDP next year, higher than the Emu goal of 60 per cent, but fulfilling the condition of following a downward trend and bettered by only five other EU members.



Augusto Mateus: meeting criteria is just the beginning of a process

The escudo, stable for more than two years, has gained more than 2 per cent on the D-Mark over the past six months. Interest rates have been consistently within the Maastricht criteria since last April, and the differential with German rates on 10-year bonds has fallen from 520 basis points in early 1995 to about 165 points currently. The 1997 budget trims the government deficit to 2.9 per cent of GDP, below the Emu objective of 3 per cent, from an expected 4 per cent this year.

"We have been approaching the Maastricht targets in a very sustainable way," says António de Sousa, the governor of the Bank of Portugal. "Portugal's strategy is not only to comply with the criteria in 1997 but to continue complying with them."

The country hopes to win admission to Emu in what is expected to be an exceptional year. "1997 is probably going to be a golden year for the Portuguese economy, the best since the late 1980s," says Mr Namorado Rosa. "We expect GDP to expand strongly, but there will be no inflationary pressure."

GDP growth is forecast to reach 3 per cent next year from a government estimate of 2.8 per cent in 1996. The upswing in economic activity is occurring against a background of stable prices, lower interest rates, and exchange rate stability. Unemployment is expected to fall slightly in 1997, from a current level of just over 7 per cent, amid signs of an increase in business confidence.

A favourable decision on Emu and strong economic growth are the foundation that the government needs to push further ahead with plans for what Mr Mateus calls "structural convergence", a comprehensive change in the way Portuguese companies compete.

Low inflation is to be achieved through improved productivity and the lower interest rates that result from international credibility, he says, rather than a policy of overvaluing the escudo that he attributes to the previous centre-government. He blames this for an increase in unemployment and the substitution of Portuguese production by imports.

Quick response, high quality and low costs are the watchwords of the new competitiveness. Mergers and acquisitions to produce bigger companies are to be encouraged by tax benefits. Incentives will be targeted at foreign investors that can add value to Portuguese industry by achieving a "good match between skills, productivity and wage costs" rather than companies simply seeking low salaries.

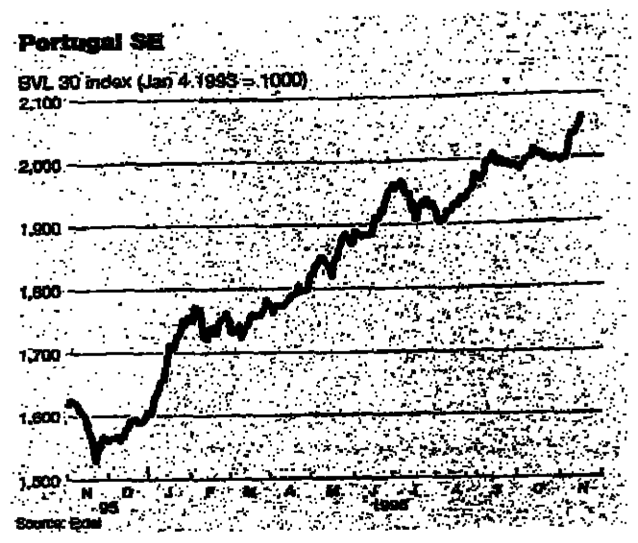
Companies will also be encouraged by incentives to look outwards. Portuguese groups should begin investing in production plants and commercial networks abroad and selling their technology to foreign companies, says Mr Mateus.

He also wants to build a new consensus between the state and private initiative on the way forward, with public investment being focused on infrastructure and private spending on more direct, productive means of improving competitiveness. "We should be working in partnership, not back to back," he says.

Stock market • by Peter Wise

Impressive growth - by any name

Privatisation programme is adding to the list of attractions for foreign investors



Cement is a big seller in Portugal, both by the truckload and on the stock market. Because of infrastructure building, more is consumed per capita than in any other European country – and when 45 per cent of Cimpor, the biggest producer, was privatised in October, more than 86,000 individuals, a Portuguese record, applied for shares.

This success for what the Socialist government likes to call democratic ownership, a policy begun by the previous centre-right administration under the title of popular capitalism, is helping to drive the Lisbon stock market to records highs for share price increases, turnover, and capitalisation.

By the time the BVL-30 index reached a new all-time high this month, the market had gained more than 26 per cent since the beginning of the year, making Lisbon share prices the third fastest-growing in the European Union this year. Market capitalisation – more than \$21bn at the end of September – is showing the second fastest growth in the EU. Turnover increased by 39 per cent, to \$4.5bn, in the first three-quarters.

In mid-1996, HSBC Capel estimated the average price/earnings ratio (PER) for the Portuguese market at 12.8, compared with 13.1 in Spain. It forecast a 1997 PER of 10.8 for Portugal and 11.5 for Spain. It put Lisbon's average earnings per share growth at 1.1 per cent in 1996, down from 26.1 per cent in 1996, and forecast a 17.9 per cent increase in 1997.

Secondary global offerings of Cimpor and Portugal Telecom this year set new records for investor demand, raising Es115.5bn and Es147.1bn respectively. Overall, Portugal's privatisation programme is expected to raise Es460bn in 1996 and a similar amount in 1997, when 25 to 30 per cent of Electricidade de Portugal, the national power utility, is to be sold in the country's biggest privatisation to date.

"The privatisation programme, carried out mostly through the stock exchange, has played an important role in the growth of market capitalisation and in the diversification of the biggest listed companies," says José Carlos Pestana Teixeira, chief executive of the Lisbon stock exchange (BVL). "Liquidity is growing strongly as a result of an increase in turnover at more than twice the rate of growth of market capitalisation."

New foreign investors are being attracted to Portugal by the sell-offs. Net portfolio investment rose to Es640bn in the first half of 1996 from only Es49.5bn in same period last year; Es477bn of this, in net terms, was invested in shares. The huge jump is partly explained by the turbulence of international currency markets in early 1995, but it also reflects a strong growth in overseas interest in the Lisbon market.

Portugal is on the road to changing from an emerging to a developed market, offering the high growth of the former with the low risk of the latter. But it is limited by a lack of liquidity, relatively small market capitalisation, and a daily trading volume of below \$25m in the first part of 1996, despite being 55 per cent higher than in the corresponding period last year.

Lisbon is yet to make the transition from the listings of emerging market indices to the main European or world market listings, a position that could be reconsidered if and when Portugal joins the single European currency.

"There is a vicious circle in the Portuguese market in that low trading volumes inhibit greater interest from abroad," says Scott Beaumont, an analyst with HSBC James Capel.

He says domestic demand has been limited by prohibitive trading rates for retail investors, underdeveloped mutual funds (unit trusts) that hold a limited weighting in equity, and a private pension fund system that is still in the embryonic stage.

But there are positive signs. The government is to lower the commissions charged on small retail trading and has been offering significant discounts to retail investors in privatisation offerings in an effort to encourage greater equity holdings on a national level.

More importantly, Portugal's big banks are beginning to build up their mutual fund base as a means of increasing income from fees and commissions as net interest margins – the difference between the rates at which banks raise and lend funds – fall. Greater investment in equity by these funds, both in volume and as a percentage of total funds under management, is expected.

In the long term, Portugal will also be forced to embrace an extensive private pension system, says Mr Beaumont. The current unfunded government liability is estimated to be about 160 per cent of gross domestic product, compared with about 70 per cent of GDP in the UK, for example. Private pension plans and Portugal's fast-growing life insurance sector should contribute to a greater contribution to equity investment from the pension market.

Privatisation of industrial companies and utilities has ended the dominance of the Lisbon market by the financial sector, increasing the number of investment opportunities. Initial public offerings of Portucel Industrial, one Europe's biggest paper pulp companies, and Portugal Telecom in 1995 contributed to reducing the weight of the banking sector in the market from 41 per cent in 1994 to 33 per cent at the end of 1995.

Four years ago, the weight of the financial sector was in excess of 60 per cent. Recent and forthcoming equity issues will contribute to a further reduction of the importance of the financial sector and a balanced market structure that more accurately reflects the underlying economy.

Private-sector offerings are also contributing to growth. A global offering of Telecel, a fast-growing mobile telephone operator, in what will be Portugal's biggest private initial public offer to date, is expected to attract strong interest. "It would be difficult to find a more impressive growth story in Europe than Telecel," says one analyst.

■ **Politics** • by Peter Wise

Emblem change has the scent of success

The Socialist party is sitting comfortably after a rewarding first year in office

Portugal's Socialists used to raise clenched fists at political rallies and chant "Down with capitalism!" Today, they are more likely to wave pink roses and applaud proposals for privatising power and telephone companies.

Changing their emblem from a fist to a flower was symbolic of a transformation that helped the Socialists win a general election in October 1995.

The rose expressed the abandoning of a Marxist-inspired ideology – adopted after the collapse of the authoritarian Salazar-Caetano regime in 1974 – for pragmatic, social democratic policies more suited to a market economy committed to the European Union.

António Guterres, chief architect of the Socialist party's renewal, has been reaping ample rewards from the change during his first year as prime minister. His government, both popular and tactically successful, is blooming.

Opinion polls indicate that the Socialists would comfortably win an overall majority if an early election were called. In regional elections in October, they defeated the centre-right Social Democrats (PSD), the main opposition party, in the Azores for the first time since the islands were made an autonomous region of Portugal in 1976.

Mr Guterres has won support with a simple message: greater social spending is not incompatible with the fiscal consolidation required to ensure Portugal participates in the first phase of European monetary union (Emu) – a goal that polls show to be shared by an overwhelming majority of voters. Nor are tax increases required, he says.

Adopting the European currency from the outset is as important to Portugal today as joining what was then the European Community in 1986, according to Mr Guterres. "We want Portugal at the political centre of Europe, where the decisions are made, not out on the edge, where they have to be obeyed," he told parliament recently.

Dialogue, consensus and conciliation, the central themes of Mr Guterres' government, are pleasing voters who had wearied of the discipline, rigour and authority given prominence by the previous PSD government led by Mr Aníbal Cavaco Silva, prime minister for a decade until the Socialists' victory. For a minority government, they are also more pragmatic ideals.

Voters have also been wooed by popular measures such as the abolition of some motorway tolls, a temporary freezing of university fees, and the bailing out of a car plant threatened with closure. Opponents say these are mere quick-fix measures that expose the government's reluctance to grasp more thorny issues, including pledges of sweeping reforms in education, social security and taxation.

But Mr Guterres acknowledges a short-term and a long-term agenda for social reform. "We have given priority in the budget to investment and social programmes, particularly education," he says. "But over the next decade we will have to finance a transition to a new welfare system. Being part of the single currency, meaning lower interest rates and lower inflation, is the best environment for that reform."

Although the Socialists are four seats short of an overall majority in parliament, they have suffered no important defeats over legislation. Approval of the 1997 budget, aimed at meeting the Maastricht criteria for Emu, was secured this month with the abstention of the PSD.

Even if Marcelo Rebelo da Sousa, the PSD leader, were able to engineer the government's defeat in parliament, it would be to his disadvantage, given the Socialists' strong lead in opinion polls.

As a result, government stability is unlikely to come under threat before 1998, and only then if the economic and political tide turns against the Socialists so strongly that Mr Rebelo de Sousa is encouraged to brave an early election.

The disarray of the opposition has contributed to what one Lisbon newspaper described as a year of grace for the Socialists. Mr Rebelo de Sousa took over a party with no experience of opposition for 14 years and that had been immersed in internal conflict since Mr Cavaco Silva stepped down as PSD leader nine months before the general election.

He is only now beginning to establish himself as a credible leader of the opposition, helped by the implosion of the small right-wing Popular party (PP) amid its own leadership struggle. The PP gave the Socialists the parliamentary support needed to approve important legislation, including the 1996 budget, in a strategy that benefited both parties by undermining the PSD.

But opposition to this accommodating role by more radical PP leaders has left the party, which is strongly opposed to Portugal adopting the euro currency, facing an uncertain future. The new leadership that emerges from an extraordinary PP congress in December will be weaker, and possibly ready to listen to overtures from Mr Rebelo de Sousa on forming an alliance.

Economic fortune is also smiling on Mr Guterres. His conviction that Portugal will meet the criteria for a single currency, viewed sceptically by most analysts less than a year ago, is now widely shared.

PROFILE **António Guterres, prime minister**

Citizen Guterres walks tall

Citizen Kane is a favourite film of António Guterres, a lifelong cinema-lover who stepped into Portugal's leading government role when he took office as prime minister a year ago.

As much as the political drama depicting the downfall of an ambitious newspaper tycoon, it is the innovative use of sound and camera techniques by Orson Welles, the film's director, that he enjoys.

In introducing market-oriented socialism to Portugal, Mr Guterres, 47, is an innovator whose work is so far being given a better reception than Welles' film, which was not a commercial success when it appeared in 1941.

Opinion polls show his popularity to have increased since the Socialist party won a general election in October 1995, and the country warms to his tolerant, socially-concerned approach to problems.

His commitment to Portugal's participation in the first phase of European monetary union means that the Socialists' economic policies, focused on budgetary restraint and low inflation, are little changed from the those of the previous centre-right government.

But Mr Guterres has introduced a social dimension to the need for financial discipline. This has found favour with voters, who have not yet grown impatient for the improvements in living standards, education, health services, welfare and other areas that he has promised.

"I think that the fact that we have been able to combine fiscal consolidation with the proof that we are aware of social problems, rather than denying their existence, helps people to accept the financial constraints required to join the single European currency," he says.

The centre-right Social Democrats, the main opposition party, say a number of the government's measures may not imply heavy financial costs immediately, but will make it difficult to sustain control of the budget deficit over the long term.

They include the introduction of a guaranteed minimum income for the poor, changes in teachers' career structures and pay, schemes to rescue bankrupt companies, and plans to create a system of regional administrations.

Mr Guterres believes such measures cannot be ignored or delayed. "Nothing is easy in today's world, that's why governments sometimes lose elections," he says.

"The big question, in Portugal and Europe in general, is how to make fighting social exclusion the priority of our welfare systems," he says. "This means a much higher degree of selectivity (in welfare provision). That kind of reform is not always easy to sell to public opinion."

His social concern is rooted in religious faith. He is a practising Catholic who undertook social work in shanty towns as a youth and then chose politics rather than the priesthood as a way of helping the poor and excluded.

António Guterres

Mr Guterres hopes to keep the country with him in his fight against poverty and social exclusion. Alluding to Citizen Kane, he has said that a certain degree of solitude cannot be avoided by those who exercise power. "But I try to be alone as little as possible."

Peter Wise

PROFILE **Marcelo Rebelo de Sousa, opposition leader**

A suitable case for study...

As a professor of political theory, Marcelo Rebelo de Sousa assured his students a rich supply of case studies when he was elected leader of Portugal's centre-right Social Democrats (PSD) last March.

One of the lectures he might give at Lisbon University's law faculty could focus on how a tenacious party leader, starting from an unenviable position, can outstay his critics and overturn dismissive forecasts of a short-lived, inconsequential career.

It is not yet certain whether he will himself provide a perfect example, but the odds appear to be turning in his favour.

Critics, both inside and outside the PSD, who had labelled him too mercurial, too disordered, too out of touch with the common man, had fallen silent by October, when he called an extraordinary party congress that expressed overwhelming support for his leadership.

Mr Rebel de Sousa, 47, has given himself the mission of adapting the PSD to opposition after 14 years in government and to nurturing a younger generation to renew the party leadership. He has adopted a simpler, more direct style for the role, acknowledging that previously "a lot of people didn't understand what I was saying".

Jorge Sampaio, Portugal's Socialist president, has helped him assert authority by respectful treatment as leader of the opposition. Mr Rebelo de Sousa, a man of great charm, counts the president among his many old friends. He and António Guterres, the prime minister – now the rival protagonists of Portugal's main political battles – also began a close friendship when they worked together in Catholic youth movements.

Taking on the PSD leadership was, perhaps, one of the most generous acts of a man known for his unstinting generosity. Few coveted the job. The party had been adrift without effective leadership since its defeat by the Socialists in a general election five months earlier.

All the senior figures who came to prominence during a decade of government under Aníbal Cavaco Silva, the former prime minister and party leader, were holding their ambitions in check, shying away from trying to win back the popularity that the PSD lost amid allegations of patronage, arrogance and inefficiency.

Mr Rebelo de Sousa, 47, did not serve under Mr Cavaco Silva, an advantage in the current political climate, and his only foray into active politics over the past decade was an unsuccessful bid to be elected mayor of Lisbon, when he famously dived into the Tagus river to show it was not polluted.

After a brief spell as a parliamentary affairs minister in the early 1980s, he had pursued a career as a lawyer and academic, becoming one of Portugal's leading political commentators, best known for giving politicians marks out of 20 in a popular weekly radio show.

He says he will give himself a pass mark if the PSD wins back a majority of town councils in next year's local elections. He would then be in a position to fight the next general election, due in 1999, as a candidate for prime minister.

Marcelo Rebelo de Sousa

Should he fail and lose his hold over the PSD, José Manuel Durão Barroso, a former foreign minister now pursuing an academic career at Georgetown University in Washington, is tipped as the man most likely to take over the professorship of the party.

Peter Wise

■ **The regions: Oporto** • by David White

Northern workhorse

The industrial heartland believes it still gets a raw deal compared with Lisbon

Better communications have lessened the impact of the 300 kilometres separating Lisbon from Oporto. But, after a decade of regional funds pouring in from the European Union, the imbalance between Portugal's two main population centres remains.

The northern industrial heartland, the argument goes in Oporto, is a net contributor of wealth to the rest of the country. At the same time, it has received less than its share of investment in hospitals, universities and other public services, and its average income is about two-thirds that of the Lisbon region.

Oporto is the hub of Portugal's small-business sector. Northerners, individualistic and thrifty, see themselves as more enterprising, energetic and serious than people in the capital. Theirs is the place where real business is done, far from the frivolities of politics. A saying has it that: Braga prays, Coimbra studies, Oporto works, Lisbon sings.

The north's role as motor of the private sector was reinforced after the 1974 revolution and the nationalisations that followed. While big southern businessmen were away in exile, new groups such as the Sonae retail and industrial concern emerged in the north. When conditions were relaxed, Oporto was the city where the first new investment and commercial banks were established, backed by northern money.

But much of this banking base has since shifted down to Lisbon. Privatisation has strengthened the capital's position as a financial centre. The mainstay export industries of the north, such as textiles and shoes, meanwhile face a hard race to modernise as trade barriers come down.

Oporto's century-old stock market stopped trading in mid-1994, its business being transferred to Lisbon. In exchange, the northern city got Portugal's new derivatives market, inaugurated after some delay in June this year. Its main activity in interest-rate futures is already under threat from the prospect of a European single-currency zone embracing Portugal.

"Things will change," admits Manuel Alves Monteiro, the exchange's managing director. "The challenge will be to provide the banking sector with new services and identify new products."

The exchange has brought some benefits to the city, he says, including a Capital Markets Institute for training executives. Many of the courses actually take place in Lisbon. But he argues that if, on the contrary, the market were based in the capital, none of the training would go anywhere else.

Ludgero Marques, president of the Oporto Industrial Association (AIP), a venerable body dating from 1845, says the region is producing a "new and more modern class of businessmen", but is hampered by low levels of qualification and deficient infrastructure. Siemens' Es78bn memory-chip plant, being built near Vila do Conde, north of Oporto, will bring new skills but only in very specialised areas, he says. The region needs more laboratories and industry-university collaboration. Although it has been accessible by motorway since 1991, it also needs better secondary roads, dock and airport facilities.

"How can we have industries in areas where it's difficult to get big trucks to?" he asks. "Or where there is no good school?" Lisbon, he says, must open up and stop hogging everything.

"Nothing has been accomplished by EU funds to decrease regional disparities," says Pedro Arroja, an economics professor at Lisbon's Autonomous University. He says that, over the past 10 years, neither the north nor the southern Algarve region has narrowed the gap with the Lisbon area in gross domestic product per capita, while the centre and Alentejo regions are lagging even further behind.

He calculates that the north makes a net transfer of Es500bn annually to the south. This comes mainly from public services which the north should be receiving and does not. He has calculated it gets 29 per cent of the total, although it has 37 per cent of the population. The remaining Es150m, he says, stems from its tax contribution: 33 per cent of the national total, compared with the region's 30 per cent share of Portuguese GDP.

"This fiscal transfer is the most important factor explaining the big difference in standards of living, and why the GDP per capita gap has not decreased," he says.

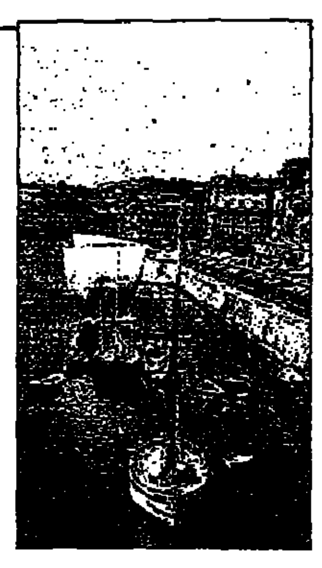
The case for more regional decision-making muscle has a champion in Fernando Gomes, Oporto's ambitious Socialist mayor. The north has become an important base for the Socialists as well as the centre-right Social Democrats, who have seen their position eroded.

Widely respected locally, Mr Gomes preferred to stay at his post rather than join the Socialist cabinet after last year's election.

Oporto, for all its grievances, is a proud place. Among its institutions is FC Porto, Portugal's reigning football league champions, a club with a particular mystique, a membership of 100,000, a waiting list to join, and a stadium which is one-third sold in advance for the whole season. It also has the country's largest-selling daily newspaper, the *Jornal de Notícias*, with nationwide circulation of about 80,000.

Although many say Oporto has outgrown its conservative image, change does not always go down easily in the region, with its overwhelming preponderance of family businesses and small landholdings. Cobwebs from the past sometimes clog its bureaucracy - such as the impenetrable wall that the city hall calls its press office.

A symbol of modernisation is the new rail bridge spanning the Douro, taking over from Eiffel's 1887 landmark. A competition is open for a 60-km metro system for the urban area, which has a population of well over 1m. Change is less apparent in the city centre, still delightfully down-at-heel, than the modern business district stretching towards the ocean to the west. That is where the new derivatives exchange has set up, abandoning the space the stock market used to rent from the Commercial Association in the neo-classical Palácio da Bolsa – now left as a monument to Oporto's merchant tradition.



The riverside at Oporto

Regional plans divide nation

Portugal is Lisbon, the rest is just scenery, according to a self-disparaging Portuguese saying. But plans to redress the regional imbalances implicit in this phrase have provoked a controversy that is dividing the nation – not into administrative regions, as the government wants, but into opposing sides for and against the idea of regional power.

The 1976 constitution, written as Portugal established democracy after 48 years of centralist dictatorship, says elected regional administrations should be created to further the "direct and active" participation of citizens in political life. But, 20 years later, Portugal remains one of only three European Union countries not to have devolved any significant political power.

In Madeira and the Azores, autonomous regional governments were created in 1976. But on the mainland, the issue was neglected until António Guterres, then the opposition Socialist party leader, made it one of the main planks of his general election campaign.

"I am deeply committed to decentralising the Portuguese state, which is still based on a Napoleonic structure that dates from the 18th century," the prime minister says. "I think it is decisively important for Portugal to develop an intermediate level of administration that gives citizens some say in how their regions are developed and the way public funds are invested in their area."

He envisages regional administrations with limited powers and without large bureaucracies, that would not be empowered to raise taxes but would have some control over regional planning, public investment, EU regional incentives and local resources and services. Regional assemblies would have 41 to 61 deputies.

But when the minority Socialists pushed through a draft law to create such administrations with the support of the Communist party last May, the centre-right opposition stormed out of parliament in protest. Marcelo Rebelo de Sousa, the opposition leader, later helped convince Mr Guterres to hold a referendum on the issue.

Polls indicate a majority of Portuguese favour some regional power but want to be consulted about it in a referendum. This will require changing the constitution, making any move towards regionalisation now unlikely before 1998.

Peter Wise

PROFILE Planet, office services megastores

Entrepreneurs set worldwide target

Three young business graduates, who began three years ago with a photocopying and desktop publishing shop in Lisbon, have developed an innovative office services concept that will shortly lead to the launch of what is believed to be the world's first chain of document and imaging megastores.

Their company, Planet, starting from the basic idea of photocopying, aims to do for computer-based graphics, text and photography what Richard Branson's Virgin Group, which began by selling records, has done for entertainment media.

"We soon realised we had something unique worldwide and that Europe was a completely open market," says Pascal Monteiro de Barros, 32, one of the partners, two Portuguese and one American, who met in the US as MBA students at the Darden School of the University of Virginia.

The group is now working with a leading international investment bank on raising the capital to establish the central infrastructure for a multinational chain, with a view to opening several large stores in Madrid and Barcelona and a network of smaller stores operated under licence in Spain and Portugal. It plans to move gradually into other European markets.

Walking into Planet's 1,200 sq m megastore on central Lisbon's Avenida da República takes you into a world of high-performance computer technology that blends the atmospheres and services of a copy shop, design agency, college library and cybercafe in an imaginative "lifestyle" approach to text and graphics.

By the time Mr Monteiro de Barros and his partners, Luís Quartin Bastos, 31, and Michael T. Melloy, 38, opened this flagship store last January, they had developed their original idea of blending copying and computer centres into a global document service for companies and individuals, producing anything from a restaurant menu to a sophisticated business presentation involving slides, CD-Roms and glossy brochures.

Besides self-service and collect-and-deliver copying services, the store, one of five Planet units operating in Lisbon, offers banks of computers that can be rented by the hour for writing, design, printing, Internet access, data transmission and other tasks. A design team is available to help bring clients' ideas to fruition. Other departments handle photographs, slides and colour poster printing.

Inside the store, customers socialise at the tables of a small cafe, buy newspapers and magazines, and watch music videos. Planet also provides telephones, fax and mailbox services and offers stationary and computer goods for sale. All Planet stores are open 24 hours a day, seven days a week.

"Many of our customers are deadline driven, and we wanted to create an atmosphere that would reduce tension, help people relax and work to their own timetables," says Mr Monteiro de Barros. "We realised that in southern Europe there was no equivalent of the US college library where people go to read, learn, talk and have fun."

The group's business results also tell an impressive tale. The first 210 sq m store Planet store, which opened close to two central Lisbon arts universities in January 1994, registered sales of Es100m in its first year, considerably above the average for similar businesses in the US.

Sales for this store rose 50 per cent in the second year, and the average sales growth for Planet's stores is now about 30 per cent a year. The group expects total 1996 sales of about Es830m.

Planet's founders, who developed their idea after one of the partners was commissioned to research the potential of a photocopying franchise, began by investing Es40m, with Mr Monteiro de Barros' entrepreneur father as a sleeping partner. It went on to raise a further Es420m in May 1995 in a private equity placement to fund expansion based on the group's rapidly-evolving concept of a more global service.

The company, which has grown to 240 employees, expects to record 35,000 client transactions a month by the end 1996, compared with 2,500 transactions in January 1994.

Instead of duplicating the same, limited technology in each store, Planet has developed an integrated network that makes a much wider ranch of technology available. This can be accessed, and the finished work delivered, through any of its outlets, although the processing may take place at another site.

"Today's technology means that even a small company can create an excellent image for itself. But it is moving much too fast for companies who don't specialise in document services to accompany developments or amortise their investments before the next generation of computers, printers or copiers comes out," says Mr Monteiro de Barros.

"Our aim is provide the best in expertise, service standards and the latest technology so that companies can focus on what they do best while we handle their documents and images."

Peter Wise

Planet's partners (from left): Michael T. Melloy, Pascal Monteiro de Barros and Luís Quartin Bastos

PROFILE Symington, port and madeira shipper

Family keeps winning blend

Across the river from Oporto, the port shippers' names at Vila Nova de Gaia stand out in big white letters, lit up at night: Graham's, Warre, *Delaforce*, Offley, Taylor's, Croft, Dow's.

The name Symington is not visible among them. But the Symington family controls a handful of the famous brands, some 17 to 18 per cent of global port sales and 20 per cent of exports.

Through acquisitions, the Symingtons have established themselves as the biggest force both in the port business and in the upmarket bottled segment of the madeira wine trade.

They have played a big part in modernising a tradition-bound industry, by introducing temperature-controlled fermentation and *pushing for the conversion* from bulk to bottled production. All port is now being sold in bottles.

Mr James Symington, 61, is the current chairman of Symington Port and Madeira Shippers, but is a bit sheepish about the title. He is really a sort of senior partner. "We run the company in a very informal way," he says. Eight members of the family are working in the business: two of his generation – grandsons of the founder – and six of the next.

"It might be seen as a recipe for disaster," says Mr Symington of the company's strong family streak. "But – touch wood – it sees to be working well."

The French Pernod Ricard group has a 20 per cent shareholding, but takes no part in management. The remaining 80 per cent is family-owned. The company's *founding* figure, Andrew James Symington, was born in Scotland and arrived in Oporto in 1882. He became a partner in the oldest British port form, Warre, subsequently taking it over from the Warre family, which also owned the larger firm Dow's. Under a deal with the Warres, Symington then became a minority partner in both port companies. The group took shape from the 1960s. The Warres sold out and the Symingtons took over Graham's from the Graham family, together with a sister company, Smith Woodhouse.

The immediate aftermath of Portugal's 1974 revolution was, Mr Symington recalls, "an uncomfortable time" for the business. What did the family do? "Kept our heads down," he says.

In 1989 it broadened its interests further by taking a controlling interest in the Madeira Wine Company under an agreement with the Madeira-based Blandy family and buying the large Quinta do Vesúvio port estate, a brand it decided to market separately, with distinctive labels and packaging.

The Symingtons are well-regarded in the trade. "One of the reasons is that they're totally focused," comments the managing director of a rival port firm.

Mr Symington says the group has done little outside fortified wine. Like other port groups, it produces some table wine simply because of the limits imposed on the amount that can be made into port. But while the family has "fiddled around" with wines, it has opted not to stray from the area it knows well. "It's something we discuss every 18 months and come to the same conclusion."

Most of the family members work on the commercial and marketing side. "People know it as a family business and expect to meet a member of the family," he says.

Despite their long connection with Portugal, they still *consider themselves British*. Much more than the sherry families of southern Spain, the British community in Oporto, built on local utilities and services as well as wine, has kept its identity – its emblem being the Oporto Cricket and Lawn Tennis Club. These days, says Mr Symington, the community has become more dispersed. But, he adds: "Cricket still happens."

David White

■ Culture • by Peter Wise

Lively tradition is reborn

New complexes are stimulating interest in and improving access to the arts

Long-legged chorus girls in black tights and pillbox hats are tap-dancing on the keys of a giant 1930s typewriter as a poem by Fernando Pessoa, Portugal's greatest modern poet, emerges from the immense roller to the rhythm of a ragtime band.

This is one of the big numbers from *Lisboa em Pessoa*, an extravaganza of laser beams, topless dancers and not a great deal of poetry, that is loosely based on the writer's life, and is currently enjoying a long run at the Estoril Casino near Lisbon.

Pessoa (1888-1935), chosen by the US scholar Harold Bloom for his "outrageous originality" as one of the greatest 26 western writers of all time, is almost certainly turning in his grave – possibly in indignation, probably in delight.

Portugal has a lively tradition of popular culture, from theatrical revues to cartoonists, that is bawdy, brash and irreverent. But the portrayal of Pessoa, not the most accessible of poets, in cabaret routines suggests a bridging of a long-standing gulf between the popular and the highbrow.

At the same time as critics pour scorn on a craze for racy pop songs, known as *música pimba*, and ridicule the quiz shows and soap operas that have flooded Portuguese television since private channels began broadcasting three years ago, complex literary novels and erudite essays top the best-seller lists.

Many interpret these as signs of an exuberant renaissance of the arts in Portugal. After being stifled for 48 years under the Salazar-Caetano dictatorship, the 1974 revolution released pent-up energies, but no coherent policy for supporting artists or broadening access to culture was established in the turbulent years that followed.

"The post-revolutionary period was rich in artistic creation but the legacy of the Salazar years, when art was censored and manipulated, continued to affect – and to a certain extent still affects – the way some of our cultural institutions work," says Manuel Maria Carrilho, appointed to the newly-created post of culture minister in the Socialist government. "Our aim is to establish comprehensive new policies."

Manuel Maria Carrilho: minister with a mission

Portugal's cultural resurgence is reflected in the growing international prestige of its artists. Maria João Pires is a classical pianist who "deserves to be a household name", according to one British critic. The veteran director Manoel de Oliveira has been described in one newspaper as "the most eccentric and most inspired of cinema's world masters".

The works of novelists such as António Lobo Antunes and José Saramago have won prestigious international prizes and are often released simultaneously in several languages. Paintings by Paula Rego, Julião Sarmento and others hang in the world's most famous galleries and museums. The contemporary group Madredeus, whose music is described as "a window into the Portuguese soul", plays to sell-out concerts from Athens to Tokyo.

"The international success of artists like these is due entirely to their own efforts," says Mr Carrilho. "But their prestige helps open the way for lesser-know Portuguese creators. We place great emphasis on supporting the international projection of Portuguese culture, which has important repercussions for our economy and international standing."

Expo '98, the world fair to be held in Lisbon within 18 months, will provide Portuguese artists with their biggest single forum to date. Portugal is also to be the theme of the Frankfurt Book Fair next year, an event that the government will use to promote a wide spectrum of Portuguese culture.

At home, Portugal's young people, more educated and more affluent than previous generations, flock to concerts, plays, operas and exhibitions at new Lisbon venues such as the Centro Cultural de Belém (CCB) and Culturgest. These massive complexes have been criticised as grandiose and ugly, but they are clearly succeeding in their aim of stimulating interest in and improving access to the arts.

The CCB is entirely state-run, and Culturgest belongs to Caixa Geral de Depósitos, a state-owned bank. "If it were not for the state, it is unlikely that there would be any theatre, cinema, opera or libraries in Portugal," says Mr Carrilho. "State support is fundamental."

He believes state intervention in the arts is an important dividing line between social democrats, who support it, and liberals, who oppose. "It is my profound conviction that the state has a responsibility to intervene," he says. "My two objectives are to democratise culture, by making the arts more accessible to the general population, and to improve the facilities for artistic production."

But he is adamant that the state should in no way try to influence what artists produce. Cinema, orchestras, ballet, opera and theatre in Portugal are overwhelmingly state-funded, but management, programming, and creative endeavour should be entirely independent, says Mr Carrilho.

Business sponsorship of the arts in Portugal, where the culture ministry has an annual budget of less than $250m, and is also responsible for the costly area of historic buildings, is coveted but elusive.

The government is revising legislation to increase fiscal benefits for companies sponsoring the arts. But Mr Carrilho acknowledges that Portugal lacks the sponsorship tradition of countries such as Britain and Italy.

Portugal is the only country in the European Union not to have set up an Association for Business Sponsorship of the Arts (ABSA), national bodies that provide the expertise and information from bringing businesses and artists together.

"I think Portugal would benefit greatly from creating an ABSA that could show companies precisely what they can gain from sponsorship and provide an efficient service for establishing contacts," says Michael Collins, who runs London-based Portugal 600. The organisation, which promotes Portuguese culture in Britain, is proving increasingly successful in attracting sponsorship from some leading UK companies.

PROFILE António Lobo Antunes, novelist

Doctor's prescription for a prize-winner

After finishing medical school, António Lobo Antunes went to St Thomas's Hospital in London – a place, he says, with important associations for him, because it was where Somerset Maugham studied.

Not until much later, when he was 36 and well established as a psychiatrist, did be succeed in getting his fiction published. But Lobo Antunes now has his place among the select breed of doctor-novelists.

His latest book, *The Inquisitors' Manual*, a story about one of Salazar's ministers and his family circle, has been topping Portugal's best-seller list. With 11 novels, translated into several languages, particularly successful in France, he is regularly cited as a contender for the Nobel literature prize, which no Portuguese-language writer has won.

António Lobo Antunes: perhaps a Nobel prize contender

His stories are built around the events of Portugal's recent history and the way they impinge on people's lives – the dictatorship, the African wars, the 1974 revolution, and ensuing disenchantment. The writing is often funny but also bitter, dealing with separations, failed marriages, humiliations and loneliness.

"In the beginning I always said that my writing had nothing to do with my work as a doctor," he says. "But from the third or fourth novel it occurred to me I could use some medical techniques and adapt them to my writing."

His use of "free-floating association" imposes a complex narrative structure. *The Inquisitors' Manual* is told through a series of different voices, personal recollections in which key sentences crop up repeatedly, Full stops are hardly used, and the book ends in mid-sentence.

The author gave up psychiatric practice about 10 years ago to devote himself full-time to his craft. By this he means 13 or 14 hours a day, writing everything by hand. "I like drawing the letters," he says. "It's like doing crochet work. I like the physical contact with paper."

Among his influences, he cites cinema and music. *The Inquisitors' Manual*, he says, is constructed like a symphony.

The second novel in the cycle will bring him back to the subject of Africa. He spent 27 months as an army doctor in Angola in the early 1970s. The book that first made him famous – called *Judas's Arse*, rather coyly translated in the English version as *South of Nowhere* – was based on his experience of a war in which soldiers were used as mine-detectors "because a truck was more necessary and expensive than a man."

He now wants to focus on families in Portuguese Africa before the colonial wars and after independence.

Now 54, Lobo Antunes grew up in a surgeon's family in the Benfica area of Lisbon, where he was more exposed to Anglo-Saxon and German literature than the standard French fare. He acknowledges debts to Jane Austen, George Eliot, Dickens and the Brontës, the more obvious influences of Faulkner and Joyce, as well as Chekhov (another doctor) and Gogol. A "mixed Italian-German-Brazilian" background gives him a certain distance on contemporary Portugal, he says.

David White

■ **Tourism** • by David White

Waking up to the wine business

Growers have belatedly discovered another side to their industry

You could take the train, of course. From Oporto's blue-tiled central station to the heart of the Douro wine region takes two hours and a bit, the exact time depending not on the number of stops but the age of the trains.

At an average of rather less than 30 miles per hour, the train does at least afford a good view. For the second half of the trip the steep banks of the river valley open up on the right – some of Portugal's loveliest scenery and still a largely unexploited tourist destination.

The advice given to pre-first world war railway passengers by Baedeker's travel guide remains valid, however. It is rarely obvious which station the train has arrived at. "When in company," the guide warns, "one would do better to take a private conveyance."

And it is to those visitors with their own or rented cars that this region's first attempt at a coherent tourism campaign is addressed. The Port Wine Route, inaugurated in September, is pioneering an idea already familiar in countries like France and Austria, but never before tried in Portugal.

The initiative, from the Port Wine Institute and the Casa do Douro growers' association, is perhaps the best example of efforts to develop a style of tourism totally different from the mass holiday business of the Algarve in the south.

"There was nothing organised in the region," says Sofia Basto, who runs the project from the institute's office in the town of Régua. "They were all asleep in the wine business."

The project is aimed at the upper end of the market, offering visitors an à la carte choice of stops among 54 approved sites – large and small quintas (estates), bottlers, wine bars. Accommodation is around Es10,000 to Es15,000 for a double room. The aim is to attract visitors year-round, in a region noted for its tough winters as well as its hot dry summers.

Organised visits can be made to the prehistoric carvings at Foz Côa, on a tributary of the Douro, saved last year when the incoming government put a stop to a dam project.

A number of quintas offer participation in activities such as grape-treading – a process still used for some of the best wines. It probably helps if you like port, but the region – with official demarcation going back to 1757 – is also known for its red and white table wines, muscatel and sparkling wines. For the last few years, the Douro river has also been navigable by boat, a seven-day trip to the Spanish border and back, largely favoured by retired people

The Douro is typical of the more "authentic" image tourist authorities are trying to promote. "Portugal is building a new strategy for tourism," says Augusto Mateus, who as economy minister has overall charge of the sector. "And I firmly believe tourism can create a lot of jobs."

The aim is to enlarge the market by segmentation, selling not a single product but rural holidays, cultural holidays, historic-interest holidays, sports holidays and, increasingly, business conventions and congresses. "Our goal is to make Portugal a unique destination, not the same as anybody else offering sun and beach at low prices."

The Wine Route offers beautiful countryside...and a selection for the palate to savour

The hard truth is that low-price sun and beach, while still the mainstay of Portuguese tourism, cannot be relied on to produce the hoped-for growth.

The Algarve has suffered a setback this year from a sharp fall in the number of British holidaymakers. Some 70 per cent of UK-based business, in terms of nights spent, is on the southern coast, with its infrastructure of hotels, apartments and golf courses. But with the recent strength of the escudo, the region has lost business to Spain's Costa del Sol.

Last year, Portugal received 9.5m foreign visitors, up from 9.1m in 1994. But the increase in numbers and receipts since the start of the decade has been relatively slow. Gross tourism income last year, according to Bank of Portugal figures, were Es729bn, up from Es682bn the previous year, but the net balance, counting spending by Portuguese travelling abroad, rose only slightly, to Es409bn from Es400bn, and as a proportion of gross domestic product went down to 2.6 per cent from 2.8 per cent.

Officials say the Algarve continues to account for about half the country's tourism business, in both volume and money terms. But they argue that the country needs to promote its distinctive identity if it is to continue competing with Mediterranean rivals.

The problem has been filling the gap between the traditional package-tour custom and the more intrepid of individual travellers. Since the 1980s, an intermediate market has been built up through *turismo de habitação*, offering rooms at private homes ranging from mansions to farmhouses.

"We don't have unlimited capacity in inland tourism," officials admit, but say that big numbers are not the aim. Unspoilt areas such as the Alentejo, whose attractions include the historic city of Evora, require a gradual approach. "We can't just build lots of hotels in Evora and go from there."

Targeting more discriminating visitors means reducing the country's dependence on large tour operators. "Quality," officials say, "is not an aim – it's a necessity."

But even the best initiatives can hit unexpected pitfalls. The one big problem of the Port Wine Route is that there are no road-signs to point motorists in the right direction. Plans were blocked by a roads committee. It objected that the logo, a stylised wine glass, would be an incentive to drink-driving.

"The people who come to the wine route don't drink that way," protests Ms Basto at the wine institute. The quintas, she insists, offer guests no more than a single glass by way of welcome. She hopes to reverse the decision. "We're trying to convince them that it's a cultural product, a tourism product."

■ **Expo '98** • by David White

A new lease of life

Organisers are determined this exhibition puts Lisbon firmly on the map

Large digital signs by the roadside on entry routes into Lisbon clock the countdown to the opening of the city's Expo '98 exhibition – in days, hours, minutes and seconds.

With 18 months still to go, and with the main international promotion campaigns yet to be launched, the organisers are seeing to it that nobody in Lisbon should ignore the importance of the event, even if it means distracting drivers' attention from the traffic.

They regard the Expo as not just a $1.5bn summer happening, but a new lease of life for Portugal's crowded capital and a chance to recover a measure of national self-confidence.

Dedicated to the theme of the oceans, it will be the first event of its kind ever staged in Lisbon, and the first in Portugal since an 1865 international exhibition in Oporto.

The basic infrastructure at the riverfront site on Lisbon's east side is already complete. The skeleton of the future Oriente station, designed by the same Spanish architect, Santiago Calatrava, who produced the eye-catching bridge for Seville's Expo four years ago, rises in what still looks like a wasteland.

Before clearance began more than two years ago, this was a run-down industrial zone occupied by an oil refinery, storage tanks, warehouses, an abattoir and a military barracks. It is now set to become the best-connected part of the city, next to the Vasco da Gama bridge being built across the Tagus, Portugal's new EU-backed north-south connection, due for completion by the time the Expo opens. The Oriente station will provide metro, railway, bus and taxi services, a direct link with the airport a few minutes away, a car park and – the inevitable badge of modernity in Portugal – a shopping centre.

António Cardoso e Cunha, an ebullient figure who came to head the project after spending seven years as the first Portuguese member of the European Commission in Brussels, enthuses about the event's symbolic significance. The Expo's theme evokes the one period in history when Portugal, because of its navigational skills, was at the cutting-edge of know-how and enterprise. The Expo commissioner-general's dream is "to convince Portuguese people that they are as able as they were 500 years ago".

He is confident that official participations, which have already overtaken the 114 countries present in

EXPO'98

Seville, will have reached 130 to 140 by next May's confirmation deadline – a clear record, although somewhat helped by the proliferating number of world nations. Up to 10m visitors are expected, half from abroad.

Lisbon, he says, will be "a different story altogether" from Seville in 1992. He considers Seville to have been "a great achievement", but designed solely at pumping money into southern Spain, without any idea of getting it back. The event required building new hotels "which were extremely expensive during the Expo and empty afterwards", he says. Plans for using the exhibition site as a hub for research and development were not put together until afterwards. Unable to achieve the same success as Andalucia's existing high-tech park in Málaga, the Seville site has the uncomfortable feel of a graveyard.

Lisbon's idea, he says, has more in common with Barcelona's approach to the 1992 Olympic Games, using the event to recover a neglected waterfront zone and give the city a new face for the next century. The overall development project, in a privileged setting where the river is more like a lake, almost 20km wide, covers a total area of 360 hectares.

During construction, Mr Cardoso e Cunha reckons the project could contribute as much as 30 per cent of the country's economic growth over three years.

The aim, he says, is to complete the project without money from the government – "or to a very limited extent" – by working with banks and relying on revenues from the exhibition and real estate sales to cover the $1.5bn investment cost. He does not rule out "a small surplus".

The state has so far granted $3m, most of the land, which belonged to the port authority, and rights to build on it and sell plots. "The only thing we required from the government was the soil," says Mr Cardoso e Cunha – but adds that it was "full of trash" and had to be de-polluted.

Electricity cables, telecommunications, water supply and waste systems have been installed in a single tunnel almost 6 kilometres long. Construction work on the site involves some 4,500 jobs, and 5,000 are expected to be employed during the Expo itself.

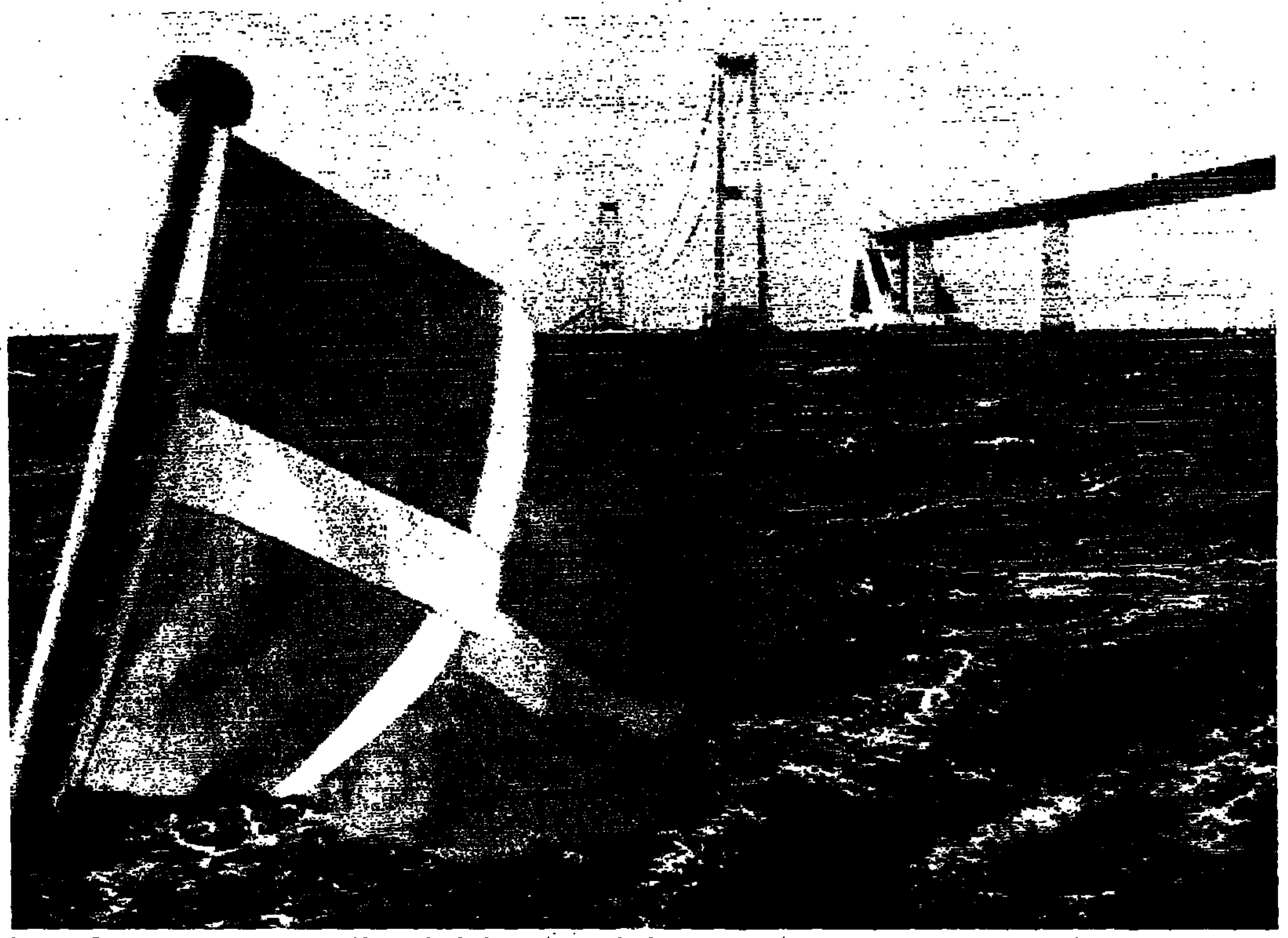
Afterwards, the aquarium – the biggest in Europe, recreating the ecosystems of four oceans, with 25,000 fish, birds and animals – will be kept as an attraction. The "Utopia" pavilion, dedicated to myths and legends of the sea from Atlantis to Jules Verne, will be turned into a multi-purpose centre for cultural and sports events. The halls of the international area will become an exhibition centre. Unlike Seville, foreign countries will not build their own pavilions but will be given space for their displays, which will then be removed.

Residential, commercial and leisure areas next to the site are destined to become a community of 40,000 residents, with 30,000 jobs, of which organisers say 18,000 will be newly-created.

DENMARK

Welfare burden threatens the state's prosperity

Despite good short-term prospects, the cost of unemployment and an ageing populace is forcing a change of political climate, says Hilary Barnes



The East Bridge across Great Belt: the bridge will be the longest suspension bridge in Europe and the second longest in the world

A raft of new measures planned for next year and aimed at bringing the young and long-term unemployed back into work is just one indicator of a change currently sweeping through Danish politics.

For a long time one of the most generous providers of welfare support in Europe, Denmark is coming to terms with the threat posed to its economic foundations by the financial burden it is already shouldering, and by the prospect that this will increase further as a result of demographic shifts which are producing an ageing of the population.

Looked at in the short term, the economy is stable and strong if judged by the usual indicators.

The current account, in deficit for 26 consecutive years to 1989, has since been in comfortable surplus and is currently about Dkr10bn or 1 per cent of gross domestic product.

After a "growth pause", which began in the autumn 1995, the Danish economy seems to have entered a recovery phase earlier than the economies of the rest Europe.

Manufacturing output and orders have picked up strongly over recent months, and the important Danish pigmeat industry is booming on the back of the European beef crisis.

The GDP growth rate will slip from 3.6 per cent in 1995 to about 2.0 per cent this year, but is expected by the government to rise to about 3.0 per cent or slightly more in 1997. Inflation has not been a serious problem since the mid-1980s. Consumer prices over the 12 months to September rose by 2.3 per cent.

Denmark would even – if it had wished to be considered – been among the countries in the first group qualifying for membership of Emu.

Its budget deficit will be only about 1 per cent of GDP in 1996, (against the 3 per cent criterion laid down in the Maastricht treaty), falling to 0.5 per cent in 1997 before moving back into surplus. Gross national debt as a proportion of GDP is one of the lowest in Europe at about 60 per cent.

Under the opt-outs obtained by Denmark as a condition for holding a second referendum on the treaty in 1992, Denmark will not, however, be participating in the common currency, and public opinion polls show no signs of a wish to change this stance.

Yet, while the country's economic performance has been good, a closer examination of employment figures gives some indication of the problems that are being stored up.

The headline unemployment figure has fallen from 12.4 per cent at its peak in 1993 to less than 9 per cent currently, but most of the reduction has taken place as a result of the withdrawal of individuals from the labour market. Job creation has made only a relatively small contribution to this process.

About 1m Danes of working age, about a quarter of the age group, are supported entirely by social welfare incomes of one kind or another and, for some, welfare dependency has become a way of life.

To support the welfare system, government expenditure has risen to about 60 per cent of GDP, while the tax burden at 51 per cent of GDP is listed as the highest in Europe by Organisation for Economic Co-operation and Development statistics.

The changes, which are scheduled to take place in the New Year, are designed to start rolling back this burden.

Unemployed Danes under the age of 25, whose access to benefits has until now remained largely unchallenged will after six months be given a choice between accepting a make-work job which is provided by the local council or enrolling in a study course which will equip them for a proper job.

A year later similar provisions will affect the long term unemployed over the age of 25. Benefit reforms which are again intended to promote a return to work will also be introduced.

At the same time, other signs of a change in the national mood are emanating from the Social Democratic Party, founded 125 years ago as the party of the industrial proletariat. A powerful campaigning organisation, the party dominated Danish politics from the late 1920s until the early 1980s.

It is still the biggest party in Denmark, is able to count on about a third of the vote, and will continue to play a crucial role in Danish politics for the foreseeable future.

Under its leader Poul Nyrup Rasmussen, the prime minister, it is the dominant partner in the current minority coalition government, formed in 1993, with the small social-liberal Radical Liberal Party and the Centre Democrats.

Popular support for the SDP has been falling, however, and has been further eroded by a tendency this year on the part of the coalition government to appear accident-prone.

The government was, for example, strongly criticised this month for what was seen as its maladroit handling of a visit to Copenhagen to receive a European Union literature prize by the UK author Salman Rushdie.

The government first cancelled the visit on security grounds, then reversed the decision when it met a barrage of domestic and international criticism, alleging cowardice in the face of the Iranian "fatwa" against Mr Rushdie.

The coalition's reputation was not improved, either, when the foreign minister, Niels Helveg Petersen, made allegations of double-dealing by the prime minister before assuming leadership of the party in 1992 when he ousted the incumbent, Svend Auken (now energy and environment minister).

The prime minister admitted that he bawled out his foreign minister who, however, did not resign.

Finally, finance minister Mogens Lykketoft, a shrewd political operator, had hoped to secure a majority for the 1997 Finance Bill, which receives its final reading in mid-December, through a deal with the Conservative Party.

This is a manoeuvre he executed last year, opening up a damaging split between the two key opposition parties.

But the Conservatives were not prepared to co-operate on this occasion, leaving the government looking around for a "patchwork" of support from different parties for various sections of the Finance Bill.

There is no serious danger that the government will fail to carry the Finance Bill, but once again, the public has been left with the impression of an administration not fully in control of its own destiny.

The next election is not due until September 1998 at the latest but the coalition's recent tribulations have caused Danish commentators to wonder whether the government can hold on to power until then.

Waiting in the wings are the Liberal Party, led by the former foreign minister, Uffe Ellemann-Jensen, probably Denmark's internationally best-known politician, and the Conservative Party, led by the former minister of justice, Hans Engell.

If opinion polls are any indication this far from an election, these two parties have a good chance of being able to form the next government, which, true to tradition in a parliament which invariably includes eight or nine parties, would be another minority administration.

The welfare reforms reflect a more general move by Mr Rasmussen to take his party – like the Labour Party in Britain – towards the centre ground in politics.

Since taking over as leader in 1992, Mr Rasmussen has set in train a modernising process within the party which at its peak was able to win over 40 per cent of the vote.

By the 1994 election it won 34.6 per cent and in recent opinion polls it has slipped to 29-31 per cent.

Continued on page 2

Economy: by Hilary Barnes

The cost of support is rising

Despite a positive short-term outlook, the cost of the welfare state is rising

The short-term outlook for Denmark has become so positive, Marianne Jelved, the economy minister, complained recently, the media had lost interest in it.

Yet, while current indicators offer a low budget deficit, a strong balance of payments, subdued inflation and a healthy recovery in manufacturing orders and output as evidence of a stable economy, the longer-term picture is markedly less bright.

As elsewhere in Europe the costs of sustaining a generous welfare state and an ageing population, as well as dealing with rising unemployment, suggest the country faces growing long-term challenges.

While the headline unemployment figure has fallen from 12.4 per cent at its peak in 1993 to less than 9 per cent currently, most of the reduction in unemployment has taken place as a result of the withdrawal of individuals who are unable to find work from the labour market. Only a relatively small part of the reduction can be attributed to job creation.

About 1m Danes of working age, about a quarter of the age group, are supported entirely by social welfare incomes of one kind or another.

Moreover, the real level of unemployment is more than double the headline number and is made up of those receiving welfare benefit: others in labour market programmes; early retirees and participants in an extremely popular leave-from-work scheme.

The scheme – currently being used by about 80,000 people or 3 per cent of the labour force – provides financial support for people who take up to a year off work either to care for children of pre-school age or to undertake a course of education.

High levels of compensation for those out of work are one factor behind the difficulty in bringing down the real jobless figure.

In its 1996 survey the Organisation for Economic Co-operation and Development quoted studies suggesting that large numbers stood to gain financially from unemployment and a significant number were able to increase their household income by only relatively small amounts by accepting a job.

Professor Jorn Henrik Peterson, of Odense University, has calculated that in 1993, for every 100 people in employment, there were 47 children and 35 people over the age of 67 to support.

Add to this the population of working age living on social welfare transfer incomes, and the burden of support reached 96 per 100 employed.

By 2030 there will be 50 children and 47 retired people per 100. Professor Petersen has extrapolated that financing the supported population will, by 2030, require an increase in value added tax from 25 per cent today to 35 per cent and a 6 percentage point increase in the income tax level.

A group of Swedish economists earlier this year estimated that in Denmark in 1993 for every 100 people in private sector employment 172 were employed in the public sector or living off social security transfers, which compared with 182 in Sweden, 101 in the UK and 76 in the US.

Pricing people into jobs by raising their educational attainments will require changes in attitudes to education *Tony Andrews*

This heavy social welfare is beginning to cause concern. As part of a a series of measures due to come into force from next year, young jobless Danes under the age of 25, who have been able to live quite comfortably on either an unemployment benefit or the cash social security hand-out, will find the climate of the welfare state significantly harsher.

After six months they will be given a choice: either accept a make-work job provided by the local council or enrol in a study course which will equip them for a proper job. The unemployed have also been told that they will be classified as unavailable for work, and will therefore not receive their benefit, unless they are clean, neat and sober.

In 1998, the net will tighten on the long-term unemployed over the age of 25, who have been able to surf through the benefit system almost indefinitely. From 1998 anyone who has been unemployed for two years or over will either be given a make-work job or told to enrol in a vocational training programme.

"It's going to be a surprise for quite a lot of people when they are told that if they have not found themselves a job they are going to have to work anyway," says Mrs Jelved.

A proposed reform of the basic income support – the cash welfare benefit, available to those who do not qualify for unemployment benefit – has been cast in a similar mould, emphasising the requirement that recipients must, if they are capable, accept make-work jobs in return for the benefit.

Yet while the government is toughening its stance on the unemployed, there is less agreement on how to tackle other welfare financing problems. A reform pause has, for example, been declared until after the next election as far as other welfare programmes are concerned.

Some of these, such as the early retirement and leave-from-work schemes, may well be axed or made less attractive in future, although Nyrup Rasmussen, the prime minister, says it will not be with his party's consent.

A key concern is how to increase employment in the private sector. All the growth in employment for the past 30 years has taken place in the government sector, including administration, education, health and social welfare. There has been no increase (other than by cyclical fluctuations) in private sector employment over this period.

There is no support in Denmark, or the rest of Scandinavia, for what is known as the Anglo-Saxon model, where low social security compensation and low wages price people into jobs.

As Mogens Lykketoft, finance minister in the present government, says: "We will not lower wages to price people into jobs. We will price people into jobs by raising their educational attainments."

This is an ambition which will require some changes in attitudes to education. Cross-national comparative studies have placed a serious question mark against the standards of attainment in the Danish schools, where the fashion in education for a generation has placed more emphasis of "personal development" than learning.

High drop-out rates at the universities and other institutions of tertiary education are a problem, but conversations with managements suggests that standards at the engineering schools and in bio-technology, both crucial for industry, remain high.

There is, however, serious concern about the inadequate training of young doctors emerging from the university hospitals.

An important problem, well recognised by the government, is that some 30 per cent of all school-leavers receive no vocational training.

Programmes to remedy this are being expanded and the tougher line being taken with young unemployed should also help.

Nevertheless, solving the employment problem by enhancing educational attainments will be a long haul and is, perhaps, not going to be enough in itself.

EMU: by Hilary Barnes

The people's choice

Opinion polls suggest Danish Emu membership has little popular support

"It would be nice if the markets learned to understand that just because we are not going to join the Emu common currency area, it does not mean we are going to devalue," the governor of Danmarks Nationalbank, Bodil Nyboe Andersen, told Danish business leaders recently.

Marianne Jelved, the economy minister agrees. "The central problem for us is to explain that Denmark cannot join the Emu, but that this is not because we are hoping to have an easier time of it by staying out."

Under the Edinburgh agreement of December 1992, Denmark obtained an opt-out from Emu membership. This, and other opt-outs to the Maastricht treaty, was a condition of holding a second referendum on the treaty in May, 1993. The treaty was rejected by the first referendum on June 2, 1992. The opt-outs cannot be changed except by referendum, "and there is no point in holding a referendum when there is little likelihood of winning," says Mrs Jelved. Opinion polls suggest that Danish Emu membership is supported by perhaps one in four voters.

Ironically, Denmark has one of the best track records among EU countries and would easily meet the Maastricht treaty's convergence criteria. The government budget deficit is down to about 1 per cent of gross domestic product this year and will fall, according to government projections, to about 0.5 per cent of GDP next year before moving into surplus in 1998. Gross national debt is also among the lowest in Europe at about 60 per cent of GDP.

Denmark has achieved this through a policy of economic stabilisation since 1982 when the country had a serious "double-deficit": a large and persistent deficit on the current account, and a large budget deficit.

An exchange rate held stable against the Ecu was then declared. Subsequent governments have stuck to this and while the Krone depreciated against the D-Mark and the Ecu when the European exchange rate mechanism collapsed in 1992, lost ground was quickly made up. The current account moved into surplus in 1990 after 26 consecutive years of deficit and has since remained in surplus.

It irks the government that its virtue has not been rewarded. While the Danish economy is in much better shape than the French, for example, the yield gap between German and Danish government bonds is wider than the gap between French and German bonds.

This, according to Mrs Jelved, is a measure of the cost to Denmark of not joining the Emu. The government's strategy is to obtain bilateral agreement with the coming European Central Bank to establish a narrow fluctuation band for the Krone against the euro of 2.25 per cent or perhaps less, with ECB agreement to support the Krone if it comes under pressure.

"This is a signal to the markets that we do not intend to avoid our obligations," says Mrs Jelved. "An exchange rate agreement is not sufficient. We have to continue to conduct a disciplined economic policy."

Theoretically, Denmark could obtain de facto membership of the common currency area by allowing the euro to become a legal parallel currency. But Mrs Jelved indicates this would present a political problem, as the electorate has been promised an opt-out from the common currency. "That is a topic we cannot begin to discuss at this stage."

A threat to prosperity

Continued from page 1

He has severed formal links with the trade union movement, by which the Confederation of Danish Trade Unions and the party were automatically represented on each other's executive committees. This has given the party greater freedom to pursue its own goals, which are not always the same as those of the trade unions.

In his state of the nation address at October's opening of the Folketing (Danish Parliament) he praised the family in terms not usually associated with Scandinavian Social Democrats whose attitude to high divorce rates and single-parent families was expressed by a Swedish sociologist, who said one of the achievements of the welfare state was to liberate the individual from the tyranny of the family.

Mr Rasmussen said: "We must support the family and the establishment of family networks, so that we are able to re-establish standards and sustain essential values." He has also been ready to talk tough on crime. The Folketing is discussing measures to give these words legislative support.

Linking rights – such as rights to social welfare benefits – with duties, is another of his recurrent themes, though his government has not yet come up with reforms to make this link tangible.

But while the political climate has changed, reforms will be gradual. The welfare state is sacrosanct. It can be trimmed but not altered in its essentials. It is is popular and a government opting for radical changes is likely to lose the next election.

The Baltic approach: by Hilary Barnes

Leading light in regional defence

The end of the Soviet Union was the catalyst for Denmark to assert its influence

For the first time in several hundred years, says a Danish diplomat, the small Nordic countries are asserting their influence over the Baltic region and the Danes are in the vanguard of this process.

The situation in the Baltic was altered radically by the collapse of the Soviet Union and the restoration of normal contacts between the Nordic countries and their Baltic neighbours: the three Baltic states of Estonia, Latvia and Lithuania, Poland, the eastern provinces of Germany, and the St Petersburg region of Russia itself.

In the cold war years, Denmark's role as a member of Nato was to act as a cork at the neck of the Baltic. It was a part which they played, in the eyes of their Nato allies, without much enthusiasm and without paying their fair share of the Nato burden – a cause of constant irritation between Denmark and its allies.

But as Peter Unwin, a former British ambassador to Copenhagen, has noted in a recent book called *Baltic Approaches*, Danish attitudes have changed.

"There has always been a reserve about Danish involvement in military matters and any activity that smacked of assertiveness." But the end of the cold war "provoked a new, quite different Danish commitment to the tasks that change demanded".

The new approach was initiated by Uffe Ellemann-Jensen, the Liberal party leader and foreign minister from 1982 to 1993. He stuck his neck out to support the independence of the Baltic states from Russia between 1990 and 1992, a stand for which he is still regarded as a hero by the Baltic peoples.

The initiative begun by Mr Ellemann-Jensen was taken up by the present government, especially by Hans Haekkerup, the minister of defence.

There has been a veritable explosion in Nordic-Baltic contacts of every kind, political, cultural, and commercial, since 1991. But Denmark, supported by its membership of Nato (while Sweden and Finland were hampered by their history of neutrality) took the lead in developing defence co-operation with the Baltic states and Poland.

This has to be seen, Mr Haekkerup explained, in light of Nato's attempts to forge new alliances in post-cold war Europe in the Partnership for Peace programme and also its commitment to make forces available for peace-keeping and humanitarian operations outside the Nato area.

> In 1997, the Baltic states plan to form Baltbat, the joint Baltic Peacekeeping Battalion

Denmark supports the Baltic states' wish to become full members of Nato, covered by the mutual security guarantee.

If, which seems likely, the alliance is not prepared to extend full membership to the Baltic states when the first new east European members are admitted within the next three years, Mr Haekkerup believes the Baltic states should still participate in all aspects of Nato co-operation except those involving the security guarantee.

This means, he says, that they would have permanent military representatives at the Nato regional headquarters at Karup, in Jutland, where they would take part in the planning, organisation and implementation of peace-keeping operations and exercises.

Mr Haekkerup also wants Nato to open offices in the Partnership for Peace countries to provide information and advice about the nature of the Nato alliance and the Partnership for Peace.

Denmark's co-operation with the Baltic states and Poland has been directed at helping the democratic process in these countries

It has also provided advice on the democratic control of the armed forces and the conversion of military production for civilian purposes with emphasis on crisis management in preparing these countries for participation in peace-keeping operations.

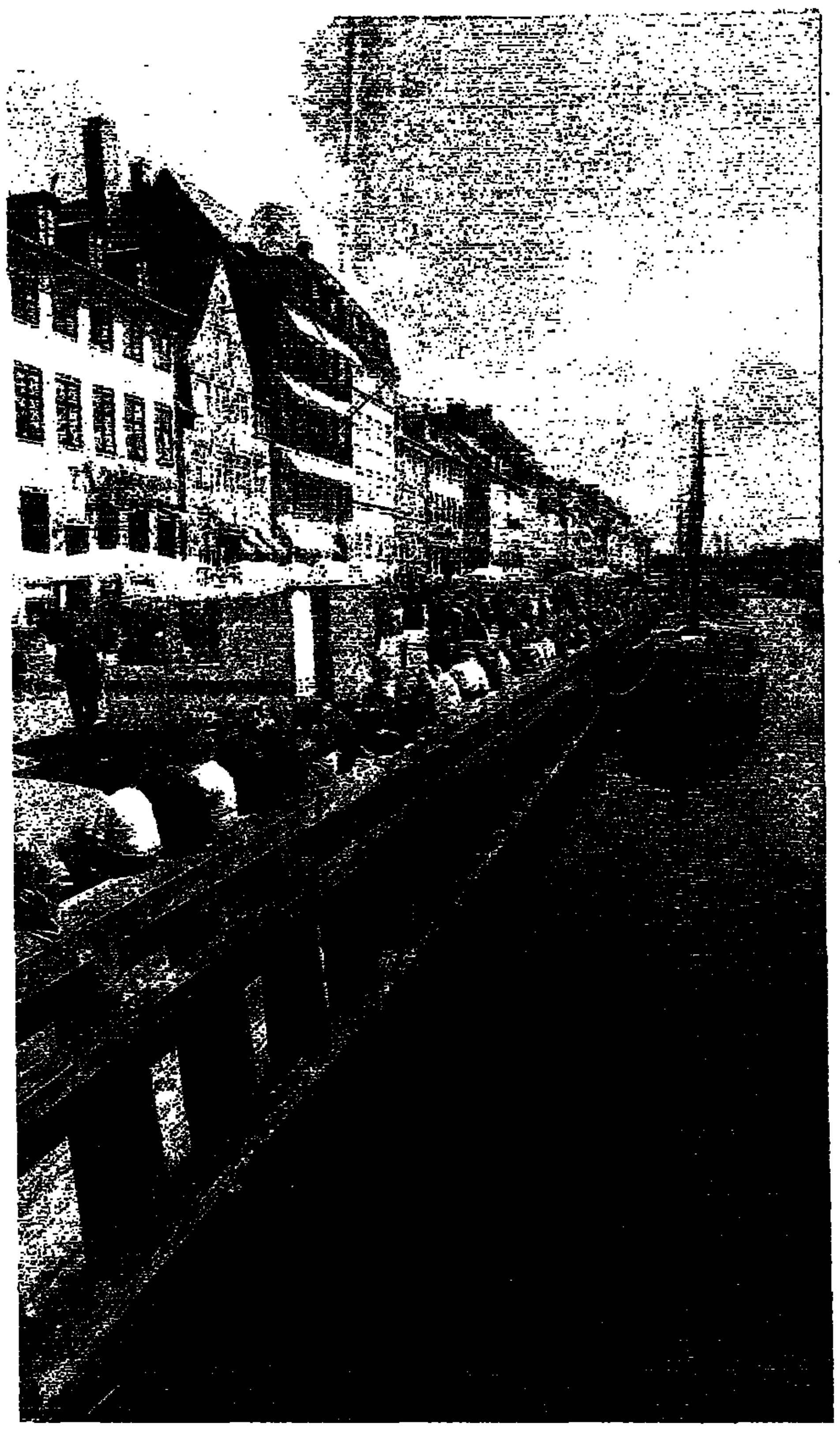
In the case of the Baltic states, Denmark has been helping them to build up a domestic defence force, a process which had to start from scratch.

The chief of the Danish defence staff, General Christian Hvidt, told an audience of businessmen recently that co-operation with the Baltic states involved 77 "activities" in 1995, 123 in 1996, and he forecast the number will rise to at least 223 in 1997.

The Baltic states have contributed units of platoon strength to the joint Nordic-Polish brigade serving with Ifor in Bosnia. This autumn the brigade was joined by a full Lithuanian company, which underwent a 10-week training course in Denmark.

These units are the forerunners of what is already known as Baltbat, the joint Baltic Peacekeeping Battalion, which the Baltic states plan to form in 1997.

According to a Danish ministry of defence document on the project, the multi-national project is regarded by Nato as a particularly constructive contribution to the co-operative security of the Baltic states, the Baltic Sea region and Europe as a whole.



Culture vultures: Copenhagen is the Cultural Capital of Europe for 1996. The city – which is already well endowed with a number of museums, theatres, architecture and grand squares and avenues, and which has one of the richest alternative arts scenes in Europe – is enjoying a year-round festival as the Cultural Capital. Organisers have laid on an extensive programme which includes hundreds of exhibitions, concerts, events, festivals and performances throughout the year

PROFILE Thrane & Thrane

Business with double vision

The bosses of one of the fastest-growing IT companies in Denmark share a common vision. But then that is hardly surprising: they are identical twins.

Per Thrane, CEO, and Lars Thrane, chairman, of Thrane & Thrane started their company in 1981 with Dkr300,000 in capital and have built up turnover to Dkr180m. With sales growth of 15-20 per cent a year, they expect to pass the billion kroner mark within six or seven years.

Thrane & Thrane is a niche company in radio communications, based at Soborg, a Copenhagen suburb. The Thranes say each of their main products has between 50 and 80 per cent of the world market.

Their vision is based on an ability to find new areas where technology can make a difference. Their first product was an automatic short-wave telex unit, revolutionary at the time, and their first buyer was the Danish Ministry of Foreign Affairs. The product, the only one of its kind approved for global use by Interpol, is now used by foreign ministries all over the world, and, together with coastal radio stations supplied by the company, is an important part of maritime communications.

But today, satellite radio communications equipment is the big growth area for the company, which has broken into the market with a mobile satellite communications terminal, Capsat. Based on the Inmarsat-C and Inmarsat-M satellite systems, Capsat offers voice, fax, telex, and data communications independent of any ground facility.

The equipment range includes a portable satellite telephone system for text, voice and data. About the size of large attaché case (the Thranes predict that eventually it will not be much bigger than today's cellular phone hand-sets), it offers mobile communication in remote areas.

Earlier this year, the company won a contract for its Capsat equipment from the US Air Force. The Thranes say the aeronautical Capsat, small enough to be installed in any aircraft, offers reliable and secure communications, and also provides an exact second-to-second position and altitude update, which can be programmed for reception on the ground.

The system can also be used by haulage companies as a navigation and position tracking system, as well as for communication with drivers.

Given the ability of the system to work in areas where communications are rudimentary, emergency-aid organisations are Thrane & Thrane's biggest single customer group.

Entrepreneurs often complain that access to risk capital is a problem. Not Thrane & Thrane, which, for a company involved in new products is unusually self-sufficient.

"We don't spend our money before we have earned it," says Lars Thrane.

The company is entirely self-financing and has no bank loans. With assets of DKr137.6m and equity capital of DKr92.6bn, the equity-to-assets ratio at the end of last year was 67 per cent.

This helps to facilitate decision-making. "We don't have to spend time discussing budgets with the bank," says Per Thrane.

About 50 per cent of its profits go into research and development.

About half its 135 staff are graduate engineers, and all were educated at the Danish Technical University, which "gives an excellent, broadly based education," say the brothers.

Hilary Barnes

Europe: by Hilary Barnes

Holding EU in suspense

Domestic politics are once again threatening progress of Maastricht talks

The Danish electorate is ambivalent about the European Union. This was dramatically demonstrated by the struggle to ratify the Maastricht treaty: turned down by a first referendum in June 1992, only to be approved a year later by a second.

Europe may well be held in suspense by the Danes once more – this time over the ratification of the Maastricht revisions under negotiation at the EU's inter-governmental conference.

No one knows for certain the final shape of Maastricht 2, but the political reality in Denmark is that it will almost certainly be submitted for approval by referendum. This is not a constitutional necessity, but rather it has become firm practice to submit EU treaties to a plebiscite.

To complicate the process, 11 Danes, with nothing in common except their opposition to Denmark's EU membership, are pursuing a case through the courts in which they argue that the prime minister acted unconstitutionally when he signed the Maastricht treaty.

Almost no one believes the courts will uphold the complainants' case. But it will not be settled until it has been considered by the Supreme Court, which has no tradition of over-turning legislation approved by the Folketing – and in the case of EU membership and the Maastricht treaty, by popular referendums.

But the court proceedings may drag out, probably for two years, possibly for twice as long. And the Folketing is not expected to approve Maastricht 2 until the Supreme Court has spoken. As the revised treaty cannot be implemented until all 15 member countries have ratified it, the EU may have to be patient.

The approval of the Maastricht treaty in 1993 was given only after the government had obtained four opt-outs from the treaty. These concerned union citizenship, defence aspects of the common foreign and security policy, participation in the EMU common currency, and the treaty's legal co-operation chapter. The opt-outs cannot be reversed without new referendums.

Poul Nyrup Rasmussen, the prime minister, has made it clear to the Folketing that the government will not permit the opt-outs to be affected by the IGC negotiations.

This means that when Maastricht 2 is subjected to approval by the voters, there will not be a fight over the opt-outs, which, the government hopes, will make it easier to obtain the electorate's approval.

If the government and the Folketing ever decide that maintaining the opt-outs is no longer in Denmark's interest, they will probably be submitted to separate referendums. But this would only happen if public opinion had changed so much that the government could expect to win the vote.

The opt-outs, said a senior diplomat, mean that the Danish government can regard the IGC negotiations with a relative degree of equanimity, as the outcome is unlikely to touch the Danes on any of their most sensitive spots.

Danish prime minister, Poul Nyrup Rasmussen: 'No opt-outs'

■ **IT:** by Paul Taylor

Test bed for technologies

Government has succeeded in making computer usage among Europe's highest

Compact and homogeneous, Denmark boasts one of Europe's most developed information technology infrastructures and a pro-active government policy making the nation an ideal test bed for technology trials, particularly in the electronic commerce field.

In terms of IT turnover per head of population – based on sales of hardware, software and IT services – Denmark is second only to Switzerland in Europe and comfortably ahead of its Scandinavian neighbours, Norway and Sweden.

The country has one of the highest levels of investment in IT among the OECD nations: home PC penetration is about 47 per cent, according to a Gallup Institute poll conducted in March, well above other European nations. Modem ownership is growing fast as Danes tune into the Internet.

Computers are even more widespread in the workplace. In 1993 an IDC (International Data Corporation) study found that there were 0.85 PCs per salaried employee, a figure which is through to have risen steeply in recent years spurred by the growth in electronic trading and the Internet.

Between January 1995 and January this year, the number of "host" computers – those connected directly to the Internet – doubled to 56,000, placing the country at number eight in the world in terms of the number of Internet hosts per head of population.

Denmark, which once lagged the rest of Europe in telecommunications, now has some of the cheapest telecom services in Europe based on Tele Denmark's advanced fibre-optic backbone and, with more than 1m cellular mobile telephone subscribers in March out of a population of around 5.2m, one of the highest levels of mobile telephony adoption.

However, Denmark's prowess in the IT field owes much to the early adoption of advanced technologies in the financial services sector, particularly by the Danish Payment System (PBS), the centre for "back-end" electronic payment processing and information transfer jointly established by Denmark's banks 25 years ago.

"Through PBS a unique infrastructure has been created, making Denmark a pioneer within modern payment processing," the organisation notes. PBS' activities fall into four main areas, payment cards, payroll and personnel administration systems, billing and other payment transfer services and infrastructure and security.

PBS payment cards include the 2.7m Dankort bank payment cards in circulation which are widely used in point of sale electronic terminals. Denmark has more transactions per card/inhabitant than any other country with 241m payments made using the system last year.

More recently the PBS and Tele Danmark jointly introduced the innovative Danmont pre-paid chip card, a memory smartcard which is used for small value payments such as telephone calls, parking meters, launderettes, stamp machines and train tickets. The card introduced in 1992 handled 2.14m transactions last year and the technology behind it has since been licensed to others.

"Technological developments in the areas of chip technology and networking will have the largest influence on the future of electronic payment and information exchange," says PBS. Accordingly the organisation, backed by Denmark's two-year-old Ministry of Research and Information Technology, is now working on high-security systems for electronic information exchange and payment transactions.

Earlier this year PBS reached an agreement with Tele Danmark on security and payments via the Internet and PBS's security system to protect electronic information on open networks, the so-called Digital Signature System, is expected to be adopted as the national standard.

Denmark, – which has also built up a high degree of expertise in cryptography/encryption, authentication and verification and vital components for secure electronic transactions – could have had a head start in adopting a national smartcard system or "Citizen's card" based on the long-established central private register which holds details of all individuals and the more recently adopted central company register.

The government's ambitious proposals for a national smartcard system would have involved holding personal data such as health records and birth certificates, and would have formed the basis of most interaction between individuals and the central government. However, the plan was abandoned after public opposition.

Alternatives, including digital signatures, which use public key/private key combinations to ensure security and a high degree of public confidence, are now being studied.

Such systems, which could be introduced relatively quickly, would probably initially be used to enable Danes to complete tax returns electronically and by students to change information related to their grants.

Two years ago, a two-man Danish government commission set out a vision of an IT- enabled Denmark in a strategy document called "Info-Society 2000".

More recently, in April this year, the ministry of research and information technology published a new IT policy statement and action plan together with an appendix providing a snapshot of IT in Denmark called "IT in Figures 1996 – 23 pictures of the info-society".

Areas that have been targeted by the government include the promotion of electronic document interchange (EDI), including the requirement of all government suppliers and contractors to adopt EDI by the end of 1998.

Internally the government is also pushing ahead with initiatives which are aimed at producing "less paper" offices (rather than paperless offices) based mainly on the adoption of e-mail and electronic document processing.

These initiatives underline Denmark's determination to stay at the forefront of the information revolution and promote the country around the world as an nation-laboratory for testing new technologies.

Economic summary

	1996 (e)	1997 (f)
Total GDP (DKbn)	1,059	1,021
Real GDP growth (annual % change)	1.1	2.0
GDP per head ($)	33,900	35,160
Inflation (annual % change in CPI)	2.2	2.2
Average hourly earnings (annual % change)	4.0	4.0
Industrial production (annual % change)	3.0	3.4
Unemployment rate (% of workforce)	9.8	9.5
3 month money market rate (%)	[illegible]	6.5
10-year government bond yield (%)	7.5	7.9
General government budget balance (% of GDP)	-0.8	0.5
Gross public debt (% of GDP)	72.0	70.1
Current account balance ($bn)	0.6	0.8
Merchandise exports ($bn)	49.0	50.5
Merchandise imports ($bn)	-42.8	-43.8
Trade balance ($bn)	6.2	6.7

(e) estimate (f) forecast

Government and construction

■ Head of state
Queen Margrethe II, acceded January 1972

■ National legislature
Unicameral Folketing (parliament) of 179 members. The Folketing is elected for a four-year term but may be dissolved prematurely.

■ National government
Cabinet headed by the prime minister, responsible to the Folketing; currently a three-party coalition led by the Social Democrats and including the Radical Liberals and Centre Democrats; appointed

Folketing: 179 seats
Social Democratic Party 62 seats
Liberal Party 44 seats
Conservative People's Party 28 seats
Socialist People's Party 13 seats
Progress Party 11 seats
Radical Liberal Party 8 seats
The Unity List 6 seats
Centre Democrats 5 seats
Others 1 seat

Doing business

■ Climate
Temperate; temperatures range from 22 degrees C to -7 degrees C. Some rain throughout the year.
Clothing: Medium weight throughout the year, warm clothing for winter months.

■ Entry requirements
Visas required for visitors from eastern Europe, Arab countries and South Africa. Most others need only passports.

■ Health
Vaccination certificates not usually required. EU nationals covered for medical treatment.

■ Currency
No restrictions on amount of foreign currency taken in or out of country, or on amount of Danish currency taken in.

■ Customs
Personal effects duty-free, plus duty-free allowance.

■ Restaurants
All bills include 15 per cent service charge and 22 per cent VAT.

■ Car hire
Available throughout the country at main Danish State Railway (DSB) stations and all airports. Can be booked in advance through stations, international car hire firms and travel agents. Valid driving licence required, which must be carried when driving. Most firms stipulate a minimum age of between 20-25.

■ City transport
Taxis: Good service in all major towns. Can be hailed in the street, by telephone or at ranks, and display green "Fri" sign when available. Fare includes a tip.
Buses: Frequent efficient services in main cities. Flat-rate fares usual.

■ Public holidays
Fixed dates: Jan 1 (New Year's Day), Jun 5 (Constitution Day), Dec 25 (Christmas Day), Dec 26 (Boxing Day).
Variable dates: Maundy Thursday, Good Friday, Easter Monday, General Prayer Day, Ascension Day, Whit Monday.

■ Working hours
Business: (Mon-Fri) 0800 - 1600 or 0830 - 1630
Government: (Mon-Fri) generally 0800 - 1700
Banking: (Mon-Fri) 0930 - 1600 (Thu 1800)
Shops: (Mon-Fri) 0900 - 1700 or 0900 - 1730, (Sat) close at 1300 or 1400.

■ Telecommunications
Telephone: Efficient automatic service. International dialling code: 45. There are no area codes. For IDD access from Denmark dial 009.
Directory enquiries: Denmark 118, overseas 113.

■ Trade fairs
Several specialised international fairs covering most products held throughout the year. Most, such as Scandinavian Fashion Fair, Scandinavian Furniture, the Fisheries Fair, and the Chem Tech International Fair, are held at the Bella Centre in Copenhagen. Other major venues are at Herning and Aalborg.

■ Electricity supply
220/380 V AC

■ Air access
National airline: Scandinavian Airline System (SAS) - jointly owned with Sweden and Norway.
Main international airport: Copenhagen (CPH) at Kastrup, 10km south-east of capital.
International airports: Alborg (AAL), 6km north-west of city, Arhus (Tirstrup) (AAR), 44km north-east of city, Billund (BLL), 2km east of city, Esbjerg (EBJ), 9km from city.

PROFILE **Olicom**

IT star rises higher

As an electrical engineer, Lars Stig Nielsen, Olicom's chief executive, had one aim when he set up his specialist networking equipment company 11 years ago. He wanted to build a world-class information technology company with a reputation for innovation, high-quality engineering and competitive prices.

Mr Nielsen founded Olicom after leaving Chr. Rovsing when it was taken over by ITT, the New York based conglomerate. Backed by city institutions and Olivetti, the Italian IT group, he set Olicom up in Lyngby, near Copenhagen, as a specialist contract engineering company working in the early days, mainly for Olivetti which held a 40 per cent stake in the company.

But while contract work provided steady cash flow and ensured profitability from the outset, Mr Nielsen spotted a market opportunity in the late 1980s as PC networking grew and demand for Token-Ring equipment – based on the networking standard developed by IBM – exploded.

Olicom developed a range of plug-in Token-Ring PC cards. "Olivetti needed the technology to be competitive," says Mr Nielsen, but the Italian group was also large enough to dictate the price and so, to reduce manufacturing costs to maintain Olicom's gross margins, Mr Nielsen set up operations in the Far East.

In 1990, Olicom launched a 16-bit Token-Ring card which won widespread praise for its performance within the industry. "We were growing at more than 100 per cent a year," says Mr Nielsen. Olicom also set up its two-tier distribution structure at the start of the 1990s and saw the proportion of sales going to Olivetti drop from 80 per cent in 1989 to about 10 per cent by 1993.

At the same time Mr Nielsen, recognising that the US was critical for longer-term success, set up a US headquarters in Plano, Texas. "I had decided that we would conquer Europe first," he explains. Among Olicom's main OEM (original equipment manufacturer) customers were Intel, the US chipmaker, and 3Com, the US networking specialist, both of which rebadged Olicom's products. Expansion in the US had other advantages. Olicom could use US revenues to pay for its dollar-denominated manufacturing costs, reducing foreign exchange risks.

In 1992 Olicom was floated on Nasdaq after Mr Nielsen looked at the Copenhagen and London bourses. Mr Nielsen, who retains a 13 per cent stake in the company, jokes that in Copenhagen and Boston he was told the company was worth about 100m, "the difference was that in the US they were talking about $100m compared with Kr100m in Copenhagen," he says.

While the flotation raised working capital for the fast growing company, the main reason for the public offering was to change the company's image. "It gave us a totally different profile," says Mr Nielsen. Flotation also helped establish a brand name, an important factor in 1993 when 3Com, one of its main OEM customers announced that it had developed its own Token-Ring products. The company's own brand products have since grown strongly and now account for more than 90 per cent of sales.

Although Mr Nielsen is adamant that Token-Ring technology "is not going away", Olicom has also broadened its product base, introducing first Ethernet products and investing heavily in the next-generation ATM (asynchronous transfer mode) technology.

The company also acquired Lasat, the modem manufacturer, helping it move into the fast expanding mobile computing market for PC Card modems.

Earlier this year Olicom forged an alliance with Cisco Systems, the US-based internetworking market leader. The two companies are jointly developing Token-Ring technology for router and switching products. Despite the difference in size between the two companies – Cisco had revenues last year of $4.1bn compared to Olicom's $127m – Mr Nielsen says "it is a complementary partnership which meets at the desktop".

"Solutions combining Cisco and Olicom products to build end-to-end, standards-based fault tolerant ATM networks represent a major step forward for many of our biggest customers," says Mr Nielsen. Olicom's software engineers, who represent about 90 out of the company's total 450 staff, are also focusing on other new business opportunities including the Internet.

But one thing is already clear. With clients including Lloyds Bank, American Airlines and the US Social Security Administration, Olicom has established itself as an internationally recognised network equipment specialist, and probably Denmark's premier IT group.

Paul Taylor